

AUDIT REPORT



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SAN FRANCISCO HOUSING AUTHORITY
LOW INCOME PUBLIC HOUSING PROGRAM

SAN FRANCISCO, CALIFORNIA

92-SF-201-1009

SEPTEMBER 10, 1992

OFFICE OF AUDIT, REGION IX
SAN FRANCISCO, CALIFORNIA



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Issue Date
September 10, 1992
Audit Case Number
92-SF-201-1009

TO: John E. Wilson, Acting Regional Administrator-Housing
Commissioner, 9S

FROM: *Miguel P. Barrios Jr.*
Miguel P. Barrios, Jr., Regional Inspector General for
Audit, 9ZA

SUBJECT: Audit of the San Francisco Housing Authority
Low-Income Public Housing Program

We made an audit of the San Francisco Housing Authority (SFHA) as part of a multi-regional external review of troubled Public Housing Agencies (PHAs). On March 10, 1980 HUD classified SFHA as "financially troubled" and it still retained this classification when we started the audit. On April 16, 1992, HUD reclassified SFHA to a "Standard Performer" under HUD's Public Housing Management Assessment Program. The audit objective was to determine whether SFHA was administering its public housing activities in an efficient, effective, and economical manner, and in compliance with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives.

We noted many areas where SFHA was not fully in compliance with requirements and significant improvements are needed. These include self assessment reporting; maintenance program administration; unit inspections; reliability of books and records; use of project funds for only necessary and reasonable expenses; tenant selection and management practices; support for personnel salaries and staffing; and procurement practices.

We have transmitted a copy of this report to the auditee.

Within 60 days please furnish us for each recommendation in this report a status report on (1) the corrective action taken, (2) the proposed corrective action and the date for its completion, or (3) why action is not needed, for each recommendation. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Should you have any questions, please contact James Farriols, Assistant Regional Inspector General for Audit on FTS (415) 556-1010.

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Executive Summary

As part of the Office of Inspector General's multi-regional effort to review troubled Public Housing Agencies (PHAs), we audited the San Francisco Housing Authority (SFHA). Our audit was performed to determine whether the SFHA was administering its low-income Public Housing Program activities in an efficient, effective, and economical manner and in compliance with its Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives.

THE ACCURACY OF SFHA'S FISCAL YEAR 1991 PHMAP CERTIFICATION AND SCORE WAS QUESTIONABLE

We noted many areas where SFHA was not in full compliance with HUD and other Federal requirements. We believe that the SFHA needs to make various improvements in its operations, as described in our report.

The accuracy of the SFHA's fiscal year 1991 Public Housing Management Assessment Program (PHMAP) Certification and score was questionable. The data which constituted the basis for the SFHA's PHMAP scoring was not always reliable, irrefutable, conclusive and factual. For several PHMAP indicators, the SFHA's scoring was higher than warranted. We found the lack of verifiable and documented systems to support data on the SFHA's vacancies, vacant unit turn around time, and unit inspections; and improper reporting of rents uncollected. As a result, the removal of the SFHA's "troubled" agency designation by HUD was premature.

THE SFHA WAS NOT ADMINISTERING ITS MAINTENANCE PROGRAM AND MAINTAINING ITS PUBLIC HOUSING UNITS IN ACCORDANCE WITH HUD'S STANDARDS/ REQUIREMENTS

The SFHA was not administering its maintenance program and maintaining its public housing stock in accordance with HUD's standards and requirements. We found that 87 percent (90 of 103) of the SFHA units that our appraiser inspected did not meet HUD's Housing Quality Standards (HQS). Also, we noted maintenance program problems regarding the Authority's use of skilled craftsmen, making emergency repairs, and monitoring staff overtime. We further noted that the SFHA cancelled over 17,000 outstanding work orders without fully ensuring the repairs were no longer required.

We attributed the deficiencies to the Authority's lack of an effective preventive maintenance program and inadequate unit inspections. As a result, there is a lack of assurance

**THE SFHA DID NOT
MAINTAIN
COMPLETE AND
ACCURATE BOOKS OF
ACCOUNTS AND
SOME ACCOUNTING
PROCEDURES AND
CONTROLS WERE
QUESTIONABLE**

that SFHA is providing all of its residents with housing that meets HUD's prescribed standards.

We found that the SFHA: (1) did not maintain accurate and complete books of accounts and records; (2) allocated salaries to programs on a questionable basis; and (3) could not support that it had sufficient funds in its low-income Public Housing Program to cover tenants' security deposits. As a result, there is a lack of assurance that SFHA's books, records and costs are reliable. We attributed the described situation primarily to the SFHA's disregard for HUD requirements and lack of SFHA staff knowledge and training.

**THE SFHA USED
PROJECT OPERATING
FUNDS FOR
UNNECESSARY,
UNREASONABLE,
AND INELIGIBLE
EXPENSES**

Between May 1989 and May 1992, the SFHA used \$191,846 of operating funds for expenses that we considered unnecessary, unreasonable, and ineligible. These funds could have been used more effectively for the SFHA's day-to-day operations. We attributed this situation to the SFHA's disagreement with the operating directives we cited and differences of opinion on the merits and support required to establish the reasonableness, eligibility and propriety of expenditures.

**THE SFHA'S TENANT
SELECTION AND
MANAGEMENT
PRACTICES NEED TO
BE IMPROVED**

From about 1989 to the present, the SFHA did not carry out its tenant management services effectively, efficiently and economically. Specifically, the SFHA did not: (1) afford eligible applicants on its waiting list the rightful opportunity to occupy available housing units; (2) transfer about 30 percent of its residents as a result of over/underhousing or health and safety concerns; (3) collect timely rents and evict tenants for nonpayment of some rents; and (4) collect additional income due from tenants for repairs, excess utility usage, and late rents.

We attributed these long-standing problems to the SFHA's lack of compliance with HUD's and its own policies and procedures for selecting applicants, collecting rents and providing other tenant management services. As a result, applicants were not properly selected from the Authority's waiting list; housing resources were not used properly; and a loss of much needed rental income occurred.

**THE SFHA'S
PERSONNEL
PRACTICES NEED TO
BE IMPROVED**

The SFHA's personnel practices need to be improved regarding the use of adequate comparability data to support administrative salaries, complying with HUD guidelines for administrative staff size; and obtaining HUD approval for payment of compensation or fees to Board members. We attributed these deficiencies to questionable hiring practices, lack of due consideration of HUD guidelines, and questionable benchmarking practices. As a result, there is lack of assurance that the Authority's salaries are justified and supported and that salaries are not excessive. Moreover, HUD was not afforded an opportunity to review and approve compensation/fees prior to their incurrence.

**THE SFHA DID NOT
FOLLOW SOME
REQUIRED
PROCUREMENT
PRACTICES**

Some SFHA procurement practices did not comply with the Authority's own procurement policy and HUD regulations. Specifically, the SFHA: (1) lacked adequate internal controls over contract administration; (2) did not maintain proper supporting documentation for quotes on small purchases and sole source procurements; and (3) did not maintain a complete or current contract log. We attributed these deficiencies primarily to the Authority's noncompliance with established procurement policies and procedures and the lack of an effective internal control system. As a result, the SFHA may have incurred excessive costs.

**DRAFT FINDINGS
PROVIDED TO THE
SFHA FOR REVIEW
AND COMMENT**

We provided 14 of our draft findings to the SFHA for comment on July 30 and 31, 1992 and 3 additional findings on August 3, 6, and 12, for a total of 17.

On August 10, 1992, we provided detailed information on our audit work explaining what we did and how we did it and the basis for our conclusions. This information was provided to the SFHA based on their request. The SFHA further requested meetings to discuss our draft findings. We held four such meetings during August 18-24, 1992. We also held a formal audit exit conference with the SFHA on August 28, 1992.

On August 12, 1992, we informed the SFHA that we would be combining our 17 draft findings into 7 broader areas and identified the areas and findings to be combined as follows:

Current Report <u>Finding</u>	Summarizes Draft Audit <u>Findings</u>
1	1
2	4,7
3	2,6,11,14
4	12,13
5	5,8,10,3
6	9,16,17
7	15

The SFHA initially provided a 79-page response to our draft findings on August 25, 1992, along with additional supporting documentation. We reviewed that response and documentation and revised our findings where appropriate, and included a summary and evaluation of the response following each of our findings. Subsequently, on September 4, 1992, the SFHA provided us with a 16-page summary of their response and a 52-page revised text of their August 25 response. The September 4, 1992 response, however, did not differ significantly from the Authority's August 25 response. Therefore we did not revise our "auditee comments" and "OIG evaluation of auditee comments" sections of our report; but rather based these sections on the Authority's August 25 response. We included the Authority's September 4 response in Appendices H and I of our report.

**THE SFHA DOES NOT
AGREE WITH OUR
AUDIT FINDINGS**

The SFHA generally disagreed with all of our audit findings and stated that our audit lacked a factual basis for its conclusions. The SFHA indicated that most of our findings were without merit and that the audit did not objectively portray the SFHA's performance and recognize the significant improvements made by the Authority during the last three years.

We disagree. We believe our audit met generally accepted government auditing standards. Our audit work was sufficient to support our conclusions and address the issues raised by the SFHA. Moreover, the focus of our audit was on identifying areas in need of improvement, not on evaluating SFHA's overall progress and accomplishments in every area.

RECOMMENDATIONS

We are recommending that you:

- Require the SFHA to develop a formal plan to address the Findings in the report and submit the plan to you for approval; and
- Closely monitor SFHA's efforts in developing and implementing a plan to address all findings.

In addition, following each finding are recommendations to correct the specific deficiencies noted during our audit.

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Abbreviations

ACC	Annual Contributions Contract
CCSF	City and County of San Francisco
CFR	Code of Federal Regulations
CIAP	Comprehensive Improvement Assistance Program
CSC	Civil Service Commission
FHEO	Office of Fair Housing and Equal Opportunity
FTE	Full Time Equivalent
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
MMU	Materials Management Unit
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
PHA	Public Housing Authority
PHMAP	Public Housing Management Assessment Program
SFHA	San Francisco Housing Authority
SFRO	HUD's San Francisco Regional Office
TAR	Tenant Accounts Receivables

Introduction

BACKGROUND

On March 23, 1938, the City and County of San Francisco created the Housing Authority of San Francisco (SFHA), as authorized by the U. S. Housing Act of 1937, and the California Public Law of 1938. The SFHA is governed by a seven-member Board of Commissioners, two of which are SFHA tenants. The Board is chaired by Robert J. Boileau and the Executive Director is David Gilmore. The SFHA's main office is located at 440 Turk Street, San Francisco, California.

As of July 1, 1992, the SFHA administered 11,262 federally assisted units, including 6,757 low-income conventional public housing units and 4,505 units assisted under HUD's Section 8 Program. (Note: The 6,757 conventional units do not include the 82 units of the Aspen Hill West project which the SFHA leased to Eebeth Corporation West Inc. in 1983. Under the lease agreement, occupancy of the project is to be limited to low-and-moderate income persons.)

The SFHA's operating budget for fiscal year 1991 was over \$31.5 million for its conventional low-income housing program. During fiscal year 1991, the SFHA received over \$63.2 million in Federal funding from HUD, including \$14.2 million in operating subsidy, \$23.8 million in modernization funding and \$25.3 million in Section 8 subsidies. With respect to the latter, the SFHA administers a modernization program for the rehabilitation of its projects, using funds provided under HUD's Comprehensive Improvement Assistance Program (now called the Comprehensive Grant Program). The SFHA's use of \$23.8 million of HUD-provided modernization funding was limited to emergencies only because of a Title VI housing discrimination investigation. HUD removed this limitation in May 13, 1992, based on a SFHA Commission and HUD-approved "Agreement for Voluntary Compliance". The SFHA has about 350 employees, including a maintenance staff of 179.

The SFHA was designated by HUD as "financially troubled" on March 10, 1980. This designation was not removed by HUD until April 16, 1992. HUD's removal

**AUDIT OBJECTIVES,
SCOPE AND
METHODOLOGY**

of the SFHA's "troubled" designation was based on the extent of the SFHA's compliance with HUD's Public Housing Management Assessment Program (PHMAP) performance indicators for the Authority's fiscal year ending September 30, 1991.

We performed our audit of the SFHA's operations to determine if the SFHA was: (1) complying with HUD regulations, policies and requirements; (2) using its resources and managing its programs and operations efficiently and economically; and (3) providing its low-income residents safe, decent and sanitary housing.

Our audit included work at the HUD San Francisco Office where we interviewed staff, and reviewed files, HUD monitoring information, correspondence, and other pertinent data concerning the SFHA.

At the SFHA, we interviewed its staff, reviewed the Authority's books and records and other related documents, and determined the adequacy of the Authority's policies and procedures related to cash management, housing quality standards, maintenance, utility usage, operating expenses, resident admissions and occupancy, tenant accounts receivable, accounting and cost allocation, procurement and contracting, general administration, insurance and bonding, salary comparability, and travel. We also reviewed the Authority's performance with respect to HUD's Public Housing Management Assessment Program (PHMAP) performance indicators for fiscal year ending September 30, 1991.

Our audit generally covered activities from October 1, 1990, through October 31, 1991. We extended the audit period as appropriate. We began the audit in November 1991 and completed our field work in July 1992. We conducted the audit in accordance with generally accepted government auditing standards.

THE SFHA'S QUESTIONABLE FISCAL YEAR 1991 PHMAP CERTIFICATION LED TO HUD'S PREMATURE REMOVAL OF THE AUTHORITY'S "TROUBLED" DESIGNATION

On January 24, 1992, the SFHA, through its Executive Director and Board Chairman as signatories, submitted the Authority's fiscal year 1991 "Public Housing Management Assessment Program (PHMAP) Certification" to HUD. Subsequently, on April 16, 1992, HUD's San Francisco Regional Office (SFRO) assigned the SFHA a total weighted PHMAP score of 69.2%, based largely on the SFRO's limited on-site confirmatory review of the Authority's certified performance indicators and the accuracy of SFHA information in the SFRO's files. On June 10, 1992, the SFRO advised the SFHA of its final weighted PHMAP score which was revised downward to 68.09% due to a computational error in the Authority's original score. Nevertheless, despite its final score, the SFRO expressed concerns about the reliability of the SFHA's PHMAP data. As a result of the SFHA's final PHMAP score of 68.09%, the SFRO assigned a "standard" performer status to the SFHA since that score fell within the PHMAP Interim Rule's 60% - 89% range for "standard" performer status. Prior to the SFHA's final PHMAP score for fiscal year 1991, the SFHA had been designated as "financially troubled" by HUD since March 1980.

Based on our review, we believe that the SFHA's PHMAP certification and PHMAP self-assessment were of questionable accuracy. Indications are that the SFHA scored itself higher than warranted and certified to questionable PHMAP performance data which prompted HUD to remove the Authority's "troubled" agency designation prematurely. Although a public housing agency (PHA) like the SFHA has several incentives for seeking removal from HUD's "troubled" agency designation, the most important incentives appear to be simply removal of the stigma associated with being classified as "troubled", relief from not having to execute a formal Memorandum of Agreement (MOA) with HUD to correct the Authority's performance problems, and relief from close HUD oversight and reporting requirements. Based on our assessment of the SFHA's compliance with the PHMAP performance indicators for the Authority's fiscal year ending 1991, we believe the SFHA should be redesignated by HUD as a "troubled" agency.

**PHMAP SCORING
SYSTEM IS DEFINED
IN HUD's JANUARY
1992 INTERIM RULE**

The PHMAP Interim Rule, (24 CFR Part 901), published in the Federal Register on January 17, 1992, required PHAs with 500 or more units to submit a PHMAP certification to HUD by March 2, 1992, based on the PHA's fiscal year 1991 operations. Each such PHA was encouraged to rate itself on the basis of the following 12 performance indicators and to certify to 6 of the 12 indicators, as subsequently described:

PHMAP Performance Indicator	Weighted Factor	Maximum Points
1. Vacancies*	X3	30
2. Modernization	X2	20
3. Rents Uncollected*	X3	30
4. Energy Consumption	X1	10
5. Unit Turnaround*	X2	20
6. Outstanding Workorders*	X1	10
7. Annual Inspection and Condition of Units and Systems*	X3	30
8. Tenants Accounts Receivable	X1	10
9. Operating Reserves	X1	10
10. Routine Operating Expenses	X1	10
11. Resident Initiatives*	X3	30
12. Development	X1	10
Total	--	220

* PHAs must certify to these performance indicators on Form HUD-50072 (see Appendix A)

The PHMAP performance indicators are graded as follows: Grade A=10 points; Grade B=8.5 points; Grade C=7 points; Grade D=5 points; Grade E=3 points, and Grade F=0 points. Where indicators or components are designated as having additional weight (x2 or x3), the points for that indicator's grade are multiplied by the additional numerical weight. The potential maximum number of points that can be awarded for all 12 PHMAP indicators is 220 points. PHAs that achieve a total weighted score of no less than 90% on all indicators may be designated by HUD as "high" performers. Those that achieve a total weighted score of less than 90% but not less than 60% may be designated "standard", and those that achieve a total weighted score of less than 60% may be designated as "troubled". Further, the PHMAP Interim Rule provides for sanctions in the event of intentional false

certifications, including suspension or debarment of the signatories.

**SFHA SUBMITTED ITS
PHMAP AND PHMAP
SELF-ASSESSMENT
CERTIFICATION TO
HUD IN JANUARY
1992**

On January 24, 1992, the SFHA submitted its fiscal year 1991 PHMAP Certification to HUD's San Francisco Office (SFRO). The SFHA's PHMAP Certification was dated January 23, 1992, and was signed by the SFHA's Executive Director and former Board Chairman (see Appendix A). The SFHA also assessed and rated itself pursuant to the PHMAP Interim Rule's performance indicators and transmitted its self-assessment to the SFRO along with its PHMAP Certification. In doing, so, the SFHA gave itself a total of 161.1 points and a PHMAP score of 73.2%, which equated to that of "standard" performer under section 901.115(b) of the PHMAP Interim Rule. It should be noted that PHAs designated "standard" performers under PHMAP are subject to standard HUD review and monitoring requirements in contrast to the more rigid HUD oversight and reporting requirements applicable to PHAs designated as "troubled" agencies.

**SFRO HAD CONCERNS
ABOUT THE SFHA'S
COMPLIANCE WITH
CERTAIN PHMAP
INDICATORS AND
THE RELIABILITY OF
ITS PHMAP DATA**

The SFRO had some concerns with the SFHA's PHMAP submission. On March 19, 1992, the SFRO met with the SFHA to discuss the SFHA's PHMAP performance and to obtain additional information on the extent of the SFHA's compliance with the PHMAP performance indicators. Specifically, the SFRO was concerned with the SFHA's compliance with PHMAP Indicator #1, Vacancy Number and Percentage; Indicator #5, Unit Turnaround Time; and Indicator #7, Component 1, System to Track Inspections and Repairs of Units; and Component 2, Annual Inspections of Units. In a letter dated March 20, 1992, the SFHA's Executive Director forwarded to the SFRO an addendum to the SFHA's application for removal of its "troubled" PHA designation. In its March 20 letter, the SFHA provided additional data and clarification of its PHMAP performance, as requested by the SFRO during the March 19 meeting. However, as subsequently indicated, the SFRO's concerns apparently were not adequately addressed.

An official in the Office of the Assistant Secretary for Public and Indian Housing in HUD Headquarters also advised us that she met with two SFHA officials on March 27, 1992, to discuss the SFHA's methods for calculating its vacancies and unit turnaround time. The SFHA officials

were in HUD Headquarters at that time for the purpose of participating in a PHMAP training course. The HUD official advised us that the SFHA's calculation methods were not in compliance with HUD's requirements. She stated that the SFHA officials were provided with a copy of the Department's draft PHMAP Handbook which explained how to calculate vacancies and unit turnaround time. The SFHA's Executive Director advised us that because HUD took exception to the SFHA's method for determining the date of vacancies the SFHA *"acquiesced and reluctantly agreed to a reduction of its score"* in the vacancy category from Grade B to Grade C.

SFHA's "TROUBLED" DESIGNATION WAS REMOVED BY THE SFRO ALTHOUGH ITS CONCERNS REMAINED

In an April 16, 1992 letter to the SFHA's Executive Director, the SFRO's Director, Office of Public Housing, informed the SFHA of the results of the SFRO's on-site confirmatory review of the SFHA's certified data and the accuracy of the SFHA data derived from the SFRO's files. (Note: HUD Field Offices are required to perform such confirmatory reviews pursuant to the PHMAP Interim Rule.) In the letter, the SFRO Director advised the SFHA's Executive Director that a total weighted PHMAP score of 69.2% was being assigned to the SFHA for the fiscal year ending September 30, 1991. At that time, the SFHA was advised that it was being designated as a "standard" performer.

In his April 16 letter to the SFHA's Executive Director, the SFRO's Director, Office of Public Housing, expressed several concerns with the SFHA's performance stating as follows:

"Although your Authority (SFHA) is no longer designated as troubled, we have several concerns resulting from our confirmatory (PHMAP) review and your performance under the MOA, as follows:

1. *Your computer system for tracking vacancy turn-around time and maintenance work orders is highly unreliable. Your Authority recognized the unreliability of its current computer system and is working toward the procurement of a new integrated management information system.*
2. *As revealed in our confirmatory review, lease dates do not always correspond to the date when a unit is ready for occupancy and the lessee has taken possession. In order to achieve high occupancy and prevent vandalism of vacant units, your Authority has followed a practice of often leasing units before they are rent-ready and giving credits to renters where*

units are not rent-ready. As a result, an extra and unnecessary administrative burden has been created and certain data reported by your Authority are not reliable.

3. Your Authority did not meet its schedule, under both previous MOAs, for development of a system of unit inspections and HQS certifications.
4. Your Authority has failed to meet its performance targets for Tenant Account Receivables under both of its previous MOAs.

Your Authority received a grade of "F" for indicators #6, outstanding work orders, and #8, tenants accounts receivables; and components: 2c, budget controls, 7c, corrections of unit deficiencies, 7d, inspection and repair of systems, 12b, timeliness of development, and 12d, budget controls. You are required to submit an Improvement Plan (IP) to correct these deficiencies if the deficiencies are not corrected within 90 calendar days after receipt of the final notification letter or final resolution of an appeal, if applicable. The requirement for an IP, if any, will be included in your final notification letter after the determination of any appeals."

Despite the SFRO's concerns, as disclosed in its April 16 letter to the SFHA's Executive Director, the SFHA's overall PHMAP score was not significantly reduced by the SFRO. It should be noted that we did not assess the effectiveness of the SFRO's on-site confirmatory review of the SFHA's PHMAP submission as part of our audit.

Subsequently, in a letter dated June 10, 1992, the SFRO's Director, Office of Public Housing, informed the SFHA's Executive Director that the SFHA's final PHMAP total weighted score was being revised downward slightly from 69.2% to 68.09% due to a computational error in the SFRO's original score. The SFRO also reconfirmed the SFHA's "standard" performer status.

We reviewed the SFHA's performance with respect to 8 of the 12 PHMAP performance indicators and found that the SFHA scored itself higher than warranted for 4 of the indicators, all of which required certification to HUD by the SFHA. The SFRO also determined an excessive score for one other indicator not requiring certification by the SFHA, thereby bringing the total number of indicators in question to 5.

The following table provides a comparison of the SFHA's self-scoring, the SFRO's scoring, and our scoring of the SFHA's PHMAP performance:

PHMAP Performance Indicators	Total Weighted Score		
	SFHA	SFRO	OIG
Vacancy Number and Percentage <u>b/</u>	25.50	21.00	21.00
Modernization <u>a/</u>	17.50	17.50	17.50
Rents Uncollected <u>b/</u>	21.00	21.00	15.00
Energy Consumpt. <u>a/</u>	10.00	10.00	10.00
Unit Turnaround <u>b/</u>	20.00	20.00	0.00
Outstanding Work Orders <u>b/</u>	0.00	0.00	0.00
Annual Inspection and Condition of Units and Systems <u>b/</u>	7.50	7.50	0.00
Tenants Accounts Receivable	0.00	0.00	0.00
Operating Reserves	10.00	10.00	10.00
Routine Operating Expenses	10.00	10.00	10.00
Resident Initiatives <u>a/</u> <u>b/</u>	30.00	30.00	30.00
Development <u>a/</u>	9.60	5.28	5.28
Total Points	161.10	152.28	118.78
% Score <u>c/</u>	73.22%	69.20%	54.0%

Note a/ - We did not review these PHMAP indicators; therefore, we accepted SFRO's scores based on its on-site confirmatory review of the SFHA's performance and review of SFHA data which it had on file.

Note b/ - The SFHA was required to certify to HUD regarding these performance indicators.

Note c/ - The SFRO's final total weighted PHMAP score for the SFHA was 68.09%. The original 69.20% score shown in the table was later revised downward by the SFRO due to an unidentified computational error.

The SFHA's 161.1 points equated to a PHMAP total weighted score of 73.2%, while the SFRO's 152.28 points and our 118.78 points equated to weighted scores of 69.2%

and 54.0%, respectively. Consequently, pursuant to section 901.115(b) of the PHMAP Interim Rule, the SFHA rated itself a "standard performer" as did the SFRO. However, based on our PHMAP weighted score of 54.0%, the SFHA would fall within the "troubled" category pursuant to section 901.115(c) of the PHMAP Interim Rule because the SFHA's total weighted score was less than 60%.

SFHA's SELF-ASSESSMENT AND PHMAP CERTIFICATION FOR INDICATOR 1

UNDERSTATED THE ACTUAL NUMBER AND PERCENTAGE OF ITS VACANCIES

PHMAP Indicator 1, Vacancy Number and Percentage, examines the number and percentage of vacancies within a PHA's inventory, including the progress that the agency has made within the previous three years to reduce such vacancies.

In scoring PHMAP Indicator 1, the SFHA determined that as of March 31, 1991, it had 140 vacancies and a vacancy rate of 2.0% (see Appendix A), including vacancies for on-schedule modernization at the Authority's Alemany project. The SFHA, therefore, assigned itself a Grade B, as its vacancy percentage was greater than 1% but less than or equal to 2%. In commenting on this indicator, the SFRO's reviewer pointed out that the SFHA used its Report of Occupancy (Form HUD-51234) for March 31, 1991, as the basis for its vacancy data and rating. The reviewer stated that the SFHA's actual vacancy rate was 2.16% which equates to a Grade C. According to the reviewer, the SFHA rounded the 2.16% downward to 2.0%, thereby giving itself a Grade B. It should be noted that HUD's PHMAP Handbook, issued during March 1992, subsequently permitted such rounding.

SFHA WAS LEASING VACANT UNITS AND COUNTING THEM AS OCCUPIED EVEN THOUGH THE UNITS WERE NOT OCCUPIED AND WERE NOT MADE READY FOR OCCUPANCY IN A TIMELY MANNER

Moreover, as revealed during the SFRO's on-site confirmatory review of the SFHA's certified PHMAP data, the SFRO found that the SFHA's lease dates did not always correspond to the dates when the units were ready for occupancy. This fact was also confirmed in writing by the SFHA in a May 27, 1992 letter from its Executive Director to the SFRO. In effect, the SFHA was leasing vacant units before they were ready for occupancy. In some cases, because units were not made ready for occupancy in a timely manner, families did not move into their units for up to 4 1/2 months after they executed their leases. The SFHA contended that it followed this practice to reduce vandalism of the units. Because the SFHA's computer

system did not distinguish between the execution date and effective date of leases, the status of such units immediately changed from vacant to occupied and rent charges began as soon as the leasing information was entered into the SFHA's system. Accordingly, in those instances where a unit was not ready for occupancy at the time the unit was leased, the SFHA provided the family a rent credit for the period from the date of the lease to the date the family could physically take possession of the unit.

We do not believe that it is appropriate to count leased vacant units as occupied if they are not made ready for occupancy. HUD does not consider such leases technically valid because families are unable to take immediate possession of the units and because the PHA is not receiving any rental income for such units.

In the previously mentioned May 27 letter, the SFHA's Executive Director advised the SFRO that inclusion of the Authority's leased but-not-available units would result in an increase in the SFHA's vacancy rate of less than one half of one percent. In our draft report, we originally reduced the SFHA's PHMAP score for Indicator 1 to 15 points and Grade D. However, in our final report, we are revising our original score to 21 points and Grade C, which is the score given by the SFRO. We have revised our score for Indicator 1 because we were unable to verify conclusively the number of SFHA leased vacant units that were unavailable for occupancy. As previously confirmed by the SFRO, the SFHA's system could not provide reliable data in this regard, and data provided to us by the SFHA in this area was not auditable. In any event, we concluded that the SFHA's actual vacancy percentage was closer to 3% than to the 2% reported by the SFHA in its January 23, 1992 PHMAP Certification to HUD.

SFHA RECEIVED A A
FAVORABLE SCORE
FROM SFRO FOR
NONCERTIFIABLE
PHMAP INDICATOR 2,
MODERNIZATION

PHMAP Indicator 2, Modernization, examines the amount and percentage of funds obligated to PHAs under section 14 of the United States Housing Act of 1937 (Act), which remain unexpended after three years; and the management of the program under section 14 for the modernization and rehabilitation of public housing units and developments.

According to sections 901.115(d) and 901.150(a) of the PHMAP Interim Rule, PHAs that receive a total weighted score of less than 60% on PHMAP Indicator 2,

Modernization, may be designated as "troubled" (referred to by HUD as "Mod-Troubled") with respect to the program under section 14 of the Act. The SFRO gave the SFHA 70 total rating points (out of a potential 80) for the five components comprising the Modernization Indicator. In conjunction with our audit, we did not review the SFHA's modernization activities; therefore, we accepted the SFRO's score for this indicator.

SFHA's SELF-ASSESSMENT AND PHMAP CERTIFICATION FOR INDICATOR 3 UNDERSTATED ITS UNCOLLECTED RENTS

PHMAP Indicator 3, Rents Uncollected, examines the balance of a PHA's uncollected rents as a percentage of its total rents to be collected.

The SFHA determined that for the fiscal year ending September 30, 1991, its uncollected rents totaled \$684,318, or about 4.26% of its \$16,066,029 total rents to be collected. Pursuant to section 901.10(b)(3)(iii) of the PHMAP Interim Rule, a Grade C is to be assigned if the PHA's balance of rents uncollected in the PHA's immediate past fiscal year is greater than 4% but less than or equal to 6% of its total rents to be collected. Accordingly, the SFHA assigned itself 21 points (based on a weighted factor of three) and a Grade C. Based on, its confirmatory review, the SFRO also assigned the SFHA 21 points and a Grade C for this PHMAP Indicator.

SFHA IMPROPERLY INCLUDED ESCROWED AMOUNTS IN ITS COLLECTED RENTS

We concluded that the SFHA warranted only 15 points and a Grade D for the Uncollected Rents Indicator. We based our score in part on the fact that the SFHA included in its year-end collected rents \$109,066 of payments it held in escrow for residents without formal rent collection plans. According to the SFHA's procedures, these escrowed funds are considered as rent collected only when residents authorize the SFHA to apply their account balances to reduce their tenants accounts receivable. These monies are maintained in a separate checking amount and do not belong to the SFHA since they are available to residents on demand. We therefore added the \$109,066 of escrowed payments to the \$684,318 of uncollected rents reported by the SFHA for the fiscal year ending September 30, 1991, bringing the total of the SFHA's uncollected rents to \$793,384.

It should be noted, however, that the SFHA disagreed with us on the above matter, contending that the subject escrowed funds should be included as rents collected. The

SFHA stated that these funds are normally credited to residents' accounts to pay off delinquent rent balances or are applied as part of a stipulated repayment agreement prior to their eviction.

We do not agree that it is appropriate to consider such escrowed funds as rents collected until such time as the funds are released from escrow and are applied against rental charges. We believe that our position is in accordance with generally accepted accounting practices.

**SFHA UNDERSTATED
ITS RENTS TO BE
COLLECTED**

We also believe that the SFHA understated its true amount of rents to be collected during fiscal year 1991. The SFHA used \$15,348,896 as the total rents to be collected; however, the SFHA's records showed a figure of \$15,899,772 -- a difference of \$550,876. The SFHA contended that while our figure represented the total rents charged for the first of the month, its figure included adjustments to reflect rent credits provided to residents (including credits for delays in completing maintenance repairs), rent adjustments to reflect reductions in residents' income as reported at annual reexaminations, partial rent charges for units occupied during a month, and unpaid rent balances transferred to vacated accounts for residents who moved out of their units during the fiscal year. However, the SFHA acknowledged that "The Public Housing Management Assessment Program Handbook" (Handbook 7460.5, dated March 1992) significantly changed the methodology for calculating uncollected rents and that the SFHA's initial January 1992 PHMAP submission to HUD did not reflect this revised methodology.

**SFHA LATER REVISED
THE AMOUNT OF ITS
DWELLING RENTS TO
BE COLLECTED**

The SFHA Executive Director stated that when appropriate adjustments to rent charges are considered, the correct dwelling rent charges to be collected would be \$15,679,236. He stated that, based on the PHMAP Handbook, retroactive rent charges of \$17,104 should be excluded from that amount. Therefore, according to the SFHA's Executive Director, adjusted dwelling rent charges to be collected would be \$15,662,132.

WE ORIGINALLY
CALCULATED THE
PERCENTAGE OF
SFHA RENTS
UNCOLLECTED TO BE
8.04% IN CONTRAST
TO THE SFHA'S
CERTIFIED 4.26%

We initially gave the SFHA nine points (3 points x3) and a Grade E for the Uncollected Rents Indicator in our draft audit finding. A Grade E is to be given when the PHA's balance of uncollected rents in the immediate past fiscal year is greater than 8.0% and less than or equal to 10% of its total rents to be collected. We determined that the SFHA's uncollected rents were \$1,344,260, or 8.04% of its rents to be collected. However, because the PHMAP Handbook permits the rounding of percentages to the nearest whole, the 8.04% should have been rounded to 8.0%, which under PHMAP criteria constitutes a Grade D, i.e., the balance of rents uncollected in the immediate past fiscal year is greater than 6% but less than or equal to 8% of the PHA's total rents to be collected. (Grade D = 5 points x 3.)

As disclosed in our draft audit finding, we computed the SFHA's uncollected rents as follows:

Balance of rents uncollected as of September 30, 1990	\$ 717,133
Add: Current dwelling rents charged to residents during fiscal year 1991	15,899,772
Total dwelling rent to be collected	16,616,905
Less: Collections received for dwelling rent charged above	15,316,182
Less: Dwelling rent charges written off as collection losses during fiscal year 1991	65,529
Balance of rents uncollected at September 30, 1991 (less escrows)	1,235,194
Escrowed Amount	109,066
Balance of rents uncollected at September 30, 1991 (including escrows)	\$1,344,260
Percentage of rents uncollected	8.04%

**SFHA LATER REVISED
ITS UNCOLLECTED
RENTS PERCENTAGE
UPWARDS TO 5.79%**

In response to our draft audit finding, the SFHA's Executive Director subsequently provided additional documentation revising the SFHA's uncollected rents calculation. He stated that using the SFHA's adjusted dwelling rent to be collected of \$15,662,132 and PHMAP methodology, and including vacated accounts that had been excluded from the SFHA's original calculations, would result in uncollected rents of 5.79%, which would still equate to a Grade C. However, we could not verify the accuracy of this new documentation without on-site audit verification. Moreover, the new data was not certified by the SFHA's Controller or verified by the SFHA's Independent Auditor. As indicated, the data furnished to us by the SFHA's Executive Director included a revised adjusted figure for the SFHA's rents to be collected of \$15,662,132 for fiscal year 1991. We determined that using this adjusted amount would still result in an uncollected rents percentage of 6.70%, or a Grade D under the PHMAP criteria and rounding procedure.

**SFHA RECEIVED A
GRADE A FOR
NONCERTIFIABLE
PHMAP INDICATOR 4,
ENERGY
CONSUMPTION**

PHMAP Indicator 4, Energy Consumption, examines a PHA's annual energy consumption.

The SFRO gave the SFHA a Grade A and 10 points for the Energy Consumption Indicator. For a Grade A, a PHA's annual energy consumption, as compared to the average of the PHA's three years rolling base consumption, as adjusted for heating degree days, shall not have increased. We did not review the SFHA's compliance with this Indicator; therefore, we accepted the SFRO's score.

**SFHA's SELF-
ASSESSMENT AND
CERTIFICATION FOR
PHMAP INDICATOR 5,
UNIT TURNAROUND,
WERE NOT
SUPPORTED AND
WERE UNRELIABLE**

PHMAP Indicator 5, Unit Turnaround, examines the average period of time that a PHA requires to repair and turnaround vacant units.

The PHMAP Certification form requires a PHA to certify the annual average number of calendar days it takes to prepare vacant units for re-rental and to certify if it has established a system to track unit turnaround. For fiscal year 1991, the SFHA certified that it was taking an average of 13.4 days to repair and turnaround its vacant units. Therefore, pursuant to the PHMAP scoring criteria for this Indicator, the SFHA assigned itself a Grade A and 20 points (Grade A = 10 points x2). The SFHA also certified that it had a system to track unit turnaround time. (Note: For a Grade A, a PHA must have established a system to

track the duration of vacancies; and the average number of calendar days for vacant units to be prepared for re-rental and for a new lease to take effect during the PHA's immediate past fiscal year must be less than or equal to 20 calendar days.) Based on its confirmatory review, the SFRO also assigned a Grade A to the SFHA for Indicator 5, but later challenged the reliability of the SFHA's unit turnaround data.

The SFHA's Unit Turnaround Report for the three-month period ending September 30, 1991, which the SFHA submitted with its PHMAP Certification, showed the dates units were vacated and leases signed. The SFHA, however, did not disclose that families did not always move into their units immediately after signing their leases. As previously mentioned in our discussion on the SFHA's Indicator 1, we found that some SFHA families did not move into their units for up to 4 1/2 months after they executed their leases due to the fact that the SFHA did not make their units ready for occupancy in a timely manner.

We found that at least 44 of the 198 units included in the SFHA's report to HUD received rent credits because the units were not ready for occupancy at the time leases were executed. The SFHA's reported average turnaround time for these 44 units was 7 days. Our review, however, showed a potential average turnaround time of 52 days for these units based on the size of the rent credits provided to the families involved.

SFHA DOES NOT
HAVE AN
ACCEPTABLE
SYSTEM FOR
TRACKING THE
DURATION OF ITS
VACANCIES

We concluded that the SFHA did not have an acceptable system for tracking the duration of its vacancies. We found that the SFHA's system did not capture the move-in dates of residents or the dates units were made available for occupancy or reflect adjustments for rent credits in computing the SFHA's average unit turnaround time. Consequently, we believe the SFHA warrants a Grade F for the Unit Turnaround Indicator. Under the PHMAP scoring criteria, a Grade F may be assigned if a PHA has not established a system to track the duration of its vacancies; or its average number of days for vacant units to be prepared for re-rental and for a new lease to take effect during the PHA's immediate past fiscal year is more than 50 calendar days.

In the previously mentioned letter dated March 20, 1992, the SFHA's Executive Director submitted an addendum to its PHMAP application to the SFRO. In the letter, he discussed the SFHA's system for tracking the duration of vacancies because that system had been challenged by the SFRO in a meeting with the SFHA on March 19, 1992. The Executive Director stated in the March 20 letter that: *"HUD is well aware of the shortcomings of our current IBM System 38 which have impacted the Authority's ability to generate reliable and useful report data and to adequately automate many functions which are still done manually."* Nevertheless, the SFHA claimed in its letter that it had an acceptable system to track unit turnaround time even though the automated portion of its system was acknowledged as being limited.

In its March 20 letter to the SFRO, the SFHA's Executive Director requested a revised Grade C score for PHMAP Indicator 5 based on the SFHA's contention that it had a system to track the duration of vacancies and based on a revised computed turnaround time for vacant units of 26.4 days. (Note: A Grade C=7 points x2 and may be assigned if the PHA has established a system to track the duration of vacancies and the average number of calendar days to prepare vacant units for re-rental and for a new lease to take effect is greater than 25 calendar days but less than or equal to 30 calendar days.). However, the 26.4 day computation was based on a 7-month average, rather than a full PHMAP year. The SFHA requested a modification from the SFRO to use this 7-month average for PHMAP Indicator 5.

**SFHA DISAGREES
WITH OUR
CONCLUSIONS ON ITS
UNIT TURNAROUND
PERFORMANCE AND
SYSTEM**

In responding to our draft audit finding, the SFHA's Executive Director disagreed with our conclusions. He provided additional documentation (primarily raw data) which revised the SFHA's unit turnaround time to 29 days. The Executive Director claimed that this revision was based on acceptance of HUD's occupancy date definition and a count of every rent credit provided for the entire 1991 fiscal year. As a result, he stated that the SFHA warranted at least a Grade C for the Unit Turnaround Indicator.

We continue to contend that the SFHA warrants a Grade F for Indicator 5. The SFHA's system for tracking the duration of vacant unit turnaround time is too ineffective

and cannot produce reliable data in a timely manner. The SFRO, in its April 16, 1992 letter to the SFHA's Executive Director, reached essentially the same conclusion. Therefore, we believe the SFHA's unit turnaround time of 29 days is highly questionable. It is not our contention, as implied by the SFHA, that a system has to be "automated" to meet the PHMAP's criteria. Rather, we believe that any system, whether manual or automated, or any combination thereof, has to be a functional system, i.e., it has to have the capacity to capture required data and generate timely, accurate and verifiable data; otherwise it is not a system in the true sense. We do not believe that the SFHA's system meets such criteria.

SFHA's SELF-ASSESSMENT AND CERTIFICATION FOR PHMAP INDICATOR 6, OUTSTANDING WORK ORDERS, ACCURATELY REFLECT ITS PERFORMANCE

PHMAP Indicator 6, Outstanding Work Orders, examines, the proportion of a PHA's maintenance work orders outstanding, including any progress that the PHA has made during the preceding three years to reduce the period of time required to complete maintenance work orders.

For the Outstanding Work Orders Indicator, the SFHA assigned itself a Grade F and no points. The SFRO's confirmatory review agreed with the SFHA's score. We also confirmed the SFHA's and SFRO's score. A Grade F is assigned when less than 95% of the PHA's emergency orders are corrected within 24 hours or emergency work status is not abated, or the number of nonemergency work orders outstanding at the end of the PHA's immediate past fiscal year exceeds 12% of the total number of work orders received during the immediate past fiscal year, excluding cyclical work orders, or the PHA has not demonstrated progress over the most recent three-year period in which the time required to complete maintenance work orders has been reduced. The SFHA, however, did certify that it had demonstrated the aforementioned three-year progress.

Finding 2 of our report points out deficiencies in the SFHA's overall maintenance operations. Specifically, we found that the SFHA: (1) misclassified and delayed processing some emergency work orders; (2) canceled emergency work orders without assessing the effect of such action on residents' health and safety; and (3) canceled over 17,000 work orders between March and June 1992 without first determining that the need for the repairs no longer existed. We believe these deficiencies represent

serious violations of SHFA's responsibility for providing its residents with decent, safe and sanitary housing.

SFHA's SELF-ASSESSMENT AND CERTIFICATION FOR PHMAP INDICATOR 7, ANNUAL INSPECTION AND CONDITION OF UNITS AND SYSTEMS, WERE NOT APPROPRIATE WITH RESPECT TO COMPONENTS 1 AND 2

PHMAP Indicator 7, Annual Inspection and Condition of Units and Systems, examines the percentage of units that a PHA fails to inspect to ascertain maintenance or modernization needs within such period of time as HUD deems appropriate, and the percentage of systems, for the purposes of preventive maintenance, that an agency fails to inspect on an annual basis.

PHMAP Indicator 7 is comprised of 4 components: (1) system to track inspections and repairs of units and systems; (2) annual inspections of units; (3) correction of unit deficiencies; and (4) inspection and repair of system. For components 1 and 2, the SFHA assigned itself 10 points for each component and a Grade A, while for components 3 and 4, it assigned itself 0 points and Grade F. The SFHA's overall score for this Indicator was 7.5 points. Based on its confirmatory review, the SFRO also assigned 7.5 points to the SFHA for Indicator 7, with the SFRO reviewer referring to the SFHA's certification as the basis for the score. The 7.5 points was derived as follows: 20 total points (for components 1 and 2) divided by 8 (80 point maximum) times 3 (Indicator has a weight of 3). We concluded that the SFHA warrants 0 points and a Grade F for components 1 and 2 relating to its tracking system and annual inspections of units. We agree with the SFHA's and SFRO's score of 0 points and Grade F for the other 2 components. Therefore, we believe that the SFHA warrants 0 points and a Grade F for the 4 components comprising PHMAP Indicator 7.

SFHA's SYSTEM FOR TRACKING INSPECTIONS AND UNIT REPAIRS IS NOT ACCEPTABLE (COMPONENT 1)

Component 1 calls for the SFHA to certify if it has a system to track the inspection and repair of units and systems. There are only two possible scores for this component: Grade A (10 points) -- if it has such a system; Grade F (0 points) -- if it does not have the prescribed system. As previously noted, the SFHA assigned itself a Grade A and 10 points for this component because it certified to HUD that it had established a system to track the inspection and repairs of units and systems. The SFRO did likewise. In our draft audit finding provided to the SFHA's Executive Director for review and comment, we stated that the SFHA warranted 0 points and Grade F for

component 1 because it did not have an acceptable system in place.

In conjunction with its January 1992 PHMAP Certification and PHMAP self-assessment, the SFHA provided the following narrative in support of Indicator 7:

"The SFHA has nearly completed the modifications to our IBM System 38 which will allow us to 1) track the Management-initiated home inspection schedule, 2) provide regular reports on scheduled versus actual home inspections; 3) track work orders generated from home inspections for correction of unit deficiencies; 4) report on the aging of the home inspection work orders, and 5) track the number of dwelling units which meet minimum standards"

Our review disclosed that the tracking system referred to above had not been implemented as of June 15, 1992. Therefore, the SFHA did not have a system in place to track inspections and repairs of units and systems at the time it submitted its PHMAP Certification and self-assessment to the SFRO in January 1992. Moreover, in the previously mentioned April 16, 1992 letter to the SFHA, the SFRO informed the SFHA's Executive Director that the SFHA's computer system for tracking vacancy turnaround time and maintenance work orders was *"highly unreliable"*. In its letter, the SFRO stated that the SFHA recognized the unreliability of its current computer system and was working toward the procurement of a new integrated management information system. The SFRO also indicated in its letter that the SFHA failed to meet its schedule under both of its previous Memoranda of Agreement with HUD for development of a system of unit inspections and housing quality certifications.

The above matter had been previously discussed in a meeting between the SFHA and SFRO on March 19, 1992. As a follow-up to that meeting, the SFHA responded to the SFRO in writing on March 20, 1992, stating that its system for tracking the inspection and repair of units was not automated. The SFHA Executive Director stated that the Authority was using a manual system for tracking the completion of annual unit inspections. He indicated in his March 20 letter to the SFRO that the SFHA was in the process of making improvements to its IBM System 38 which would allow the Authority to automate the SFHA's tracking of annual unit inspections and the maintenance work orders related to such inspections. The SFHA's

Executive Director described the SFHA's manual system for tracking the inspection and repair of units in his March 20 letter as well as in his formal response to our draft audit finding, and indicated that the described system was adequate to meet the system requirements for component 1 of Indicator 7.

We believe that the effectiveness and reliability of the SFHA's system for tracking inspections and unit repairs is highly questionable. We do not believe that the SFHA's system provides adequate inspection and repair data to enable the SFHA to effectively maintain its units. As shown on the SFHA's January 1992 PHMAP Confirmation (Appendix A), the SFHA had virtually no data on the results of its inspections of units. We discuss some of the residual adverse effects of the SFHA's inadequate maintenance system in Finding 2. Therefore, we believe that our score of 0 points and Grade F for component 1 are appropriate.

SFHA's SELF-ASSESSMENT AND PHMAP CERTIFICATION WERE NOT ACCURATE WITH RESPECT TO ITS ANNUAL UNIT INSPECTIONS (COMPONENT 2)

Component 2 of Indicator 7 concerns the PHA's annual inspections of units. As previously noted, the SFHA assigned itself 10 points and a Grade A for this component. That score and grade were confirmed by the SFRO. For a Grade A, a PHA shall have inspected 100% of its units during the immediate past fiscal year using standards that are at least equivalent to HUD's prescribed Housing Quality Standards (HQS). In our draft audit finding provided to the SFHA's Executive Director for review and comment, we stated that the SFHA warranted 0 points and Grade F for component 2 because its self-assessment and PHMAP Certification were inaccurate. A Grade F may be given for component 2 if the PHA inspected fewer than 90% of its units in the immediate past fiscal year, using standards that were at least equivalent to the HQS.

The SFHA justified its Grade A rating by stating as part of its PHMAP Certification that it had:

- Inspected 100% of its units in fiscal year 1991.
- Utilized HQS and city housing codes in completing the inspections.

- Provided training for project managers and maintenance superintendents on unit inspection standards.

We believe that the above-cited contentions are not accurate. Our review of project records and interviews with project personnel disclosed that each of the SFHA's contentions regarding its Component 2 performance were incorrect. For example, using February 1, 1992 as a cutoff date, we reviewed 76 tenant files at 7 projects to determine when the units were last inspected by the SFHA. We found no evidence that the SFHA inspected 38 of the 76 units during fiscal year 1991. Further, the SFHA had not inspected 23 units in over two years and had no inspection reports on file for 8 other units. Moreover, our interviews with SFHA project staff disclosed that they were not familiar with the Department's HQS and had not received training on inspection standards. They acknowledged receiving training from a contractor; however, the training concerned project rehabilitation and repairs, not HQS.

Further, the SFHA's January 1992 PHMAP Certification to HUD disclosed that the Authority lacked data on the percentage of its units meeting HQS. If the SFHA had inspected 100% of its units for compliance with HQS, as the SFHA stated in its PHMAP Certification, then it should have had data on the extent to which the inspected units were in compliance with the HQS. Our inspections of 103 randomly selected units showed that 90, or about 87 percent, did not meet the HQS (see Finding 2).

Based on the SFHA's failure to meet the minimum PHMAP criteria, we believe that the SFHA warrants 0 points and a Grade F for component 2 of Indicator 7. In responding to our draft audit finding, the SFHA stated that it recently conducted a comprehensive review of its inspection documentation and could not verify that 100% of its units had been inspected. The SFHA, therefore, accepted our assessment for component 2.

SFHA RECEIVED A
GRADE F FOR THE
CORRECTION OF
UNIT DEFICIENCIES
(COMPONENT 3) AND
INSPECTION AND
REPAIR OF ITS
SYSTEMS
(COMPONENT 4)

As previously indicated, the SFHA assigned itself 0 points and a Grade F for components 3 and 4, correction of unit deficiencies and inspections and repair of its systems, respectively. The SFRO concurred in that score and grade.

We reviewed the SFHA's self-assessment and agreed that the SFHA's and SFRO's score and grade were appropriate (also see Finding 2).

SFHA RECEIVED A
GRADE F FOR
NONCERTIFIABLE
PHMAP INDICATOR 8,
TENANTS ACCOUNTS
RECEIVABLE

PHMAP Indicator 8, Tenants Accounts Receivable, examines the percentage of monies owed to a PHA by residents in possession (i.e., currently living in PHA-owned units), excluding amounts covered by formal up-to-date repayment agreements.

The SFHA assigned itself a Grade F and 0 points for this Indicator because its tenants accounts receivable exceeded 10%. The SFRO confirmed the SFHA's score and grade.

We believe that Grade F is appropriate. We found that the SFHA is not aggressively collecting rents or evicting residents for nonpayment of rents, when appropriate. Consequently, the SFHA's tenants accounts receivable balance was unacceptably high, exceeding over \$1 million as of June 30, 1992 (see Finding 5). Further, the SFHA wrote off as uncollectable another \$1.1 million in tenants accounts receivable between October 1990 and March 1992, primarily because of untimely collection actions and evictions of nonpaying residents.

SFHA RECEIVED A
GRADE A FOR
NONCERTIFIABLE
PHMAP INDICATOR 9,
OPERATING
RESERVES

PHMAP Indicator 9, Operating Reserves, examines the operating reserves maintained by a PHA, excluding tenants accounts receivable and modified for year-end adjustments, as a percentage of a PHA's maximum allowable operating reserves.

The SFHA assigned itself the maximum 10 points and Grade A for the PHMAP Operating Reserves Indicator because it determined that its maximum operating reserves were equal to 40.3% of the Authority's HUD-approved maximum operating reserves. The SFRO agreed with the SFHA; however, the SFRO's reviewer stated that the

SFHA's year-end financial statements (Form HUD-52599) disclosed operating reserves of 38%, not 40.3%. The reviewer noted that the SFHA did not receive their 1989 audit adjustments until after the SFHA submitted its year-end financial statements to HUD. The reviewer stated that these adjustments increased the percentage of SFHA's operating reserves to over 40%.

Pursuant to the PHMAP Interim Rule, a Grade A (10 points) may be assigned if the PHA's operating reserves; excluding tenants accounts receivable and modified for year-end adjustments, are 40% or greater of the PHA's maximum operating reserves. A Grade C may be assigned if such operating reserves are less than 40% and greater than or equal to 20% of the PHA's maximum operating reserves.

In our draft audit finding 1 we assigned the SFHA a Grade F and 0 points for the Operating Reserves Indicator because we considered the SFHA's documentation in support of its operating reserves to be inadequate. Consequently, we were unable to verify the propriety of the SFHA's reported operating reserves as of September 30, 1991. However, based on further review of the SFHA's response to our draft audit finding and written comments furnished by the Office of the Assistant Secretary for Public and Indian Housing, we agreed to accept the SFHA's operating reserves as reported on its Statement of Operating Receipts and Expenditures for the period ending September 30, 1991, along with the Authority's 1989 audit adjustments. As a result; for the purposes of assigning an overall PHMAP score to the SFHA, we used the SFHA's and SFRO's assigned score of 10 points and Grade A for PHMAP Indicator 9.

SFHA RECEIVED A
GRADE A FOR PHMAP
INDICATOR 10,
ROUTINE OPERATING
EXPENSES

PHMAP Indicator 10, Routine Operating Expenses, examines a PHA's level of operating expenses as compared to its operating income and subsidy.

The SFHA assigned itself a score of 10 points and Grade A for PHMAP Indicator 10. For a Grade A, a PHA's total routine operating expenses over its most recent three-year period, must be less than or equal to its operating income and subsidy. The SFRO confirmed that score and grade.

We could not confirm the SFHA's score or grade for PHMAP Indicator 10 because the SFHA's financial records were not reliable. We relied on the SFRO's confirmation of the SFHA's score and grade and, accordingly, for scoring purposes, retained the SFRO's rating.

SFHA's SELF-ASSESSMENT AND CERTIFICATION FOR PHMAP INDICATOR 11, RESIDENT INITIATIVES, RESULTED IN A GRADE A FOR THIS INDICATOR

PHMAP Indicator 11, Resident Initiatives, encourages a partnership between residents and PHAs to develop and implement a resident initiatives agenda to create self-sufficiency opportunities and maintain viable, safe and drug-free public housing developments.

The SFHA assigned itself a Grade A and 30 points for the Resident Initiatives Indicator. The SFRO confirmed that score and grade. Pursuant to the PHMAP Interim Rule, a Grade A requires that policies be adopted and procedures be implemented to support and encourage activities in the areas of anti-drug strategy/security; resident participation/management; homeownership opportunities; and economic development self sufficiency.

In conjunction with our audit, we did not determine the SFHA's compliance with the PHMAP criteria for the Resident Initiatives Indicator. Consequently, for the purpose of assigning an overall PHMAP score to the SFHA, we used the SFRO's confirmed score.

SFRO REDUCED SFHA's SCORE FOR PHMAP INDICATOR 12, DEVELOPMENT, DUE TO KNOWN PROBLEMS AT ONE OF ITS PROJECTS

PHMAP Indicator 12, Development, examines a PHA's ability to develop additional units for occupancy by public housing residents and/or to undertake the Major Reconstruction of Obsolete Projects (MROP) program funded since 1989. The assessment period is from fund reservation through not more than 12 months after Actual Development Cost Certification (ADCC) approval.

The SFHA assigned itself a score of 9.6 out of a maximum of 10 points for the PHMAP Development Indicator. The SFRO, however, assigned the SFHA a score of 5.28 for this Indicator because of problems the SFHA was experiencing in developing the Robert Pitts project. The SFHA disagreed with the SFRO's rating.

We did not review the SFHA's development activities. For the purposes of assigning an overall PHMAP score to the SFHA, we used the SFRO's score.

AUDITEE COMMENTS

(Note: The auditee comments referred to in this section and the following sections are those provided to use by the SFHA on August 25, 1992. The SFHA subsequently provided a summary of its comments and a revised version of its complete comments on our draft report on September 3, 1992; however, the September 3 comments are not significantly different from the SFHA's August 25 comments. We have included only the SFHA's September 3 response in our report -- see Appendices H and I.)

The SFHA responded to our draft audit finding in a letter dated August 25, 1992. The SFHA also provided us additional documentation (primarily raw data) with its August 25 written response. In the letter, the SFHA expressed disagreement with our assessment of the SFHA's PHMAP performance. The SFHA stated that its PHMAP performance and SFRO's confirmation of that performance were correct, factually based, and completely appropriate.

For those performance areas where we reduced the SFHA's PHMAP score and grade, the SFHA expressed general agreement with our assessment in only one instance and that was with respect to the SFHA's annual inspections of units.

**EVALUATION OF
AUDITEE COMMENTS**

Where appropriate, we revised the body of our draft audit finding to reflect the SFHA's position and concerns regarding our assessment of the Authority's PHMAP performance. In our draft audit finding, we stated that the SFHA warranted 96.78 points and a 44% total weighted PHMAP score, based on our review of the Authority's performance.

We reviewed the SFHA's response to our draft audit finding and reassessed our original score. Our finding was revised to reflect the assignment of 118.78 points and a total weighted PHMAP score of 54.0%. Specifically, we increased our score for PHMAP Indicators 1 (Vacancies), 3 (Rents Uncollected), and 9 (Operating Reserves).

Based on our audit, we consider the SFHA "troubled" under PHMAP. Obviously, no PHA is "troubled" to the same degree. We do not contend that the SFHA is among the most severely troubled or distressed PHAs in the nation. Clearly, it is not. We recognize that the SFHA has made progress over the past several years and is

performing well in some areas. However, we believe that we assessed the SFHA's performance objectively and applied the PHMAP criteria correctly in our final report.

We could not confirm the SFHA's PHMAP self-assessment and SFRO's confirmatory review because the data which constituted the basis for the SFHA's PHMAP scoring was not always reliable, irrefutable, conclusive and factual. Under such circumstances, nothing of value can be gained, at least insofar as the SFHA's residents are concerned, by no longer recognizing the SFHA's "troubled" status.

While we believe that the SFHA is on the verge of becoming a standard performer, we do not believe that it has reached that point, based on the data that we reviewed during our audit.

RECOMMENDATIONS

We recommend that your office:

- 1A. Review the results of our assessment of the SFHA's PHMAP performance and determine if the SFHA should be redesignated as a "troubled" PHA for fiscal year 1991 on the basis of our audit.
- 1B. Determine if the SFHA should be requested to submit additional or more reliable data to support its PHMAP performance for fiscal year 1991.
- 1C. Work more closely with the SFHA to ensure the Authority is aware of the PHMAP criteria and extent and type of data required to support its PHMAP performance.
- 1D. Perform a more extensive on-site confirmatory review of the SFHA's PHMAP submission for fiscal year 1992.

THE SFHA IS NOT ADMINISTERING ITS MAINTENANCE PROGRAM AND MAINTAINING ITS PUBLIC HOUSING UNITS IN ACCORDANCE WITH HUD'S STANDARDS AND REQUIREMENTS

The SFHA is not administering its maintenance program and maintaining its public housing stock in accordance with HUD's standards and requirements. In this regard, 90 (87.4 percent) of the 103 SFHA units that we inspected did not meet HUD's Housing Quality Standards (HQS). Our inspections disclosed a total of 487 violations of the HQS. About 428 (88 percent) of the 487 violations are attributable in part to the SFHA's ineffective preventive maintenance program and inadequate unit inspections. As a result, contrary to its Annual Contributions Contract (ACC) with HUD, the SFHA is not ensuring that all of its residents are living in units that meet HUD's prescribed housing standards. We also found that the SFHA's overall maintenance program was not being administered in an economical, efficient, and effective manner. The SFHA is not: (1) using its skilled craftsmen efficiently; (2) attending to emergency repairs effectively; and (3) adequately monitoring its maintenance staff's use of overtime. Further, the SFHA canceled over 17,000 outstanding maintenance work orders without fully ensuring that the repairs were no longer required.

We believe that the SFHA needs to improve its maintenance operations and the quality of its housing; otherwise, its overall maintenance costs will increase and its residents will continue to live in units that do not meet HUD's minimum standards.

**SFHA IS REQUIRED
TO OPERATE AND
MAINTAIN ITS
PUBLIC HOUSING
STOCK IN
COMPLIANCE WITH
HUD'S STANDARDS
AND RELATED
REQUIREMENTS**

Pursuant to its ACC with HUD, the SFHA is required to operate its housing projects in an economical and efficient manner. Moreover, the SFHA is required to maintain its projects in good repair, order and condition and in compliance with HUD's Housing Quality Standards (HQS). The HQS are set forth in 24 CFR 882.109 and are used to measure the quality of Section 8 housing and to determine whether units are generally of acceptable quality for participation in the program. HUD has also adopted the HQS as a measurement of the quality of public housing units.

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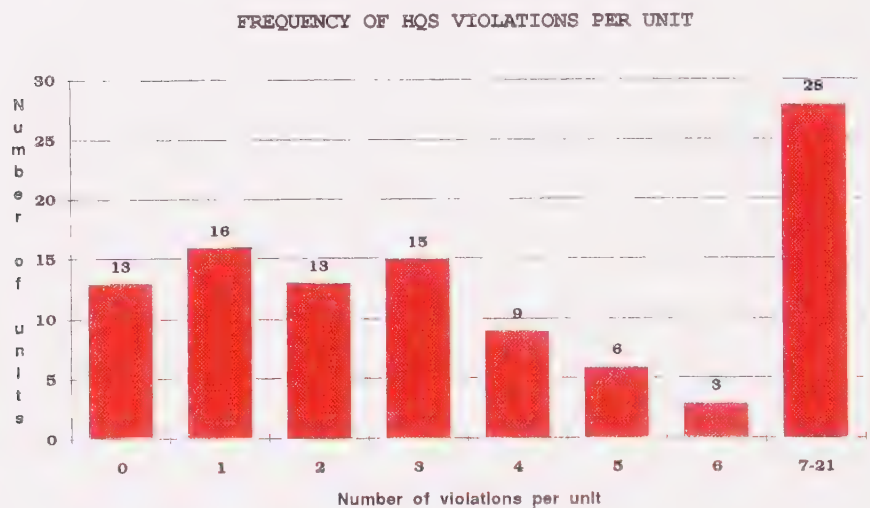
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Finding 2

ABOUT 87 PERCENT
OF THE SFHA
HOUSING UNITS
THAT WE SAMPLED
FAILED THE
DEPARTMENT'S HQS

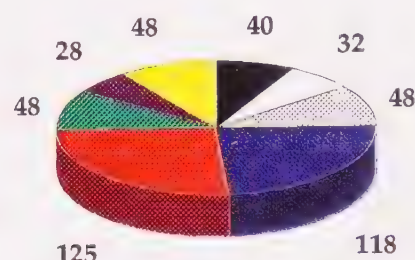
We randomly selected for inspection 103 of the SFHA's public housing units, which were located in 30 of 47 projects, to determine if the units met HQS. The inspections were performed by a qualified Appraiser/Construction Specialist. Based on our inspections, we determined that 90 of the 103 units (87.4 percent) that we inspected did not meet the Department's HQS.

Our inspections of the 103 units disclosed a total of 487 violations of the HQS. About 13 of the 103 units had no HQS violations. The other 90 units had from 1 to 21 HQS violations, with about 28, or 31 percent, of these units having from 7 to 21 HQS violations per unit. The following graph shows the frequency of the HQS violations per unit:



We performed an additional analysis of the 487 violations, based on the HQS. We found that two of the standards: "Structure and Materials" and "Defective Paint", accounted for 243, or about 50 percent of the 487 violations. In our opinion, these types of HQS violations demonstrate that most of SFHA's violations were the result of an ineffective preventive maintenance program and inadequate unit inspections. The following graph summarizes the 487 HQS violations:

TYPES OF HQS VIOLATIONS



- Sanitary Facilities (8.2%)
- Food Preparation and Refuse Disposal (6.6%)
- ▤ Illumination and Electricity (9.9%)
- Structure and Materials (24.2%)
- Defective Paint (25.7%)
- Site and Neighborhood (9.9%)
- Sanitary Condition (5.8%)
- Represents the five standards: Space and Security (3.9%), Thermal Environment (2.7%), Interior Air Quality (0.4%), Water Supply (.08%), and Access (2.0%).

The following pictures and descriptions illustrate some of the deficiencies noted during our inspections:

Defective Paint. In conjunction with the 103 units that we inspected, we found 125 instances where peeling or chipping paint posed a possible lead-based paint hazard. These instances involved ceilings, walls, and

window frames. For example, see photo 1 of unit 112 at Valencia Gardens.

The September 1991 audit report on our review of the master liability insurance policy for testing and abatement of lead-based paint in public housing (Report No. 91-TS-108-0016) pointed out that lead-based paint is a serious health threat to young children. Repeated ingestion of even small amounts of lead-based paint chips will cause lead poisoning. Excessive blood levels in children due to lead poisoning can cause attention span deficits, impaired hearing, blindness, learning disabilities, mental retardation, seizures; kidney disfunction, anemia and even death.

Structure and Materials. We identified 118 instances of deficiencies relating to structure and materials. The deficiencies included deteriorating stairways and severe damage to walls and ceilings due to leaking water. An example was water damage at the Recreation Room at the 25 Sanchez Project (see photo 2). Another example was fire damage to the kitchen of unit 174 at Sunnydale (see photo 3).

Sanitary Facilities. We found 40 instances of unsanitary facilities, including inoperative or defective sinks and toilets (i.e., leaking or dripping pipes and faucets; clogged drains; and cracked or rusted porcelain). In addition, we found mold and mildew hazards. For example, the bathroom walls and ceiling of unit 267 at Potrero Terrace had mold and mildew damage (see photo 4).

In all, we attributed 428 (88 percent) of the 487 violations to ineffective preventive maintenance and inadequate inspections by the SFHA. Tenant abuse was directly responsible for 10 of the violations, while the causes of the remaining 49 violations could not be determined.

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PHOTO 1 - Example of Defective (Peeling) Paint



PHOTO 2 - Example of Water Damage to Ceiling

Finding 2



PHOTO 3 - Fire Damage to Kitchen



PHOTO 4 - Mold and Mildew in Bathroom

**SFHA HAS NOT
INSPECTED ALL OF
ITS HOUSING UNITS
ANNUALLY FOR
COMPLIANCE WITH
HUD'S STANDARDS**

Pursuant to its ACC with HUD, the SFHA agrees to annually inspect and maintain its housing units according to HUD's prescribed housing standards or agreed-upon local standards. However, our review disclosed that SFHA has not formally adopted the Department's HQS or performed required annual unit inspections.

As discussed in Finding 1 of our report, the SFHA's project staff advised us that they were not familiar with the HQS and had not received any formal training on the standards. Moreover, the SFHA certified to HUD that it warranted a Grade A for PHMAP Indicator 7 concerning annual inspections of units. This rating indicated that the SFHA had inspected 100 percent of its units in the immediate past fiscal year using standards at least equivalent to HUD's standards. However, our review disclosed that SFHA had not inspected 100 percent of its units during fiscal year 1991, as it reported to HUD. Moreover, the SFHA did not have any data available to determine the extent to which its units were in compliance with HQS.

In responding to our draft report, the SFHA acknowledged that it could not verify, based on available documentation, that it had inspected 100 percent of its units in fiscal year 1991. SFHA attributed the problem to its reliance on reports submitted by "field sources."

**SFHA's
MAINTENANCE
OPERATIONS ARE
NOT ECONOMICAL,
EFFICIENT OR
EFFECTIVE**

The regulations at 24 CFR 905.345 require that PHAs develop and implement a comprehensive maintenance policy for all their housing programs. An essential component of a PHA's maintenance program is its work order system. The work order is used to record: (1) tenant-requested maintenance work; (2) authorized maintenance work; (3) maintenance staff assigned; (4) materials charged to jobs; and (5) time spent to complete maintenance work. An effective PHA maintenance program monitors maintenance staff through employee-maintained logs. A PHA's maintenance supervisor should use the logs as a tool for measuring and improving staff performance.

Our review disclosed that the SFHA's maintenance operations are not economical, efficient, or effective. As a result, SFHA residents are not always being provided

with housing that meets HUD's minimum standards; and the SFHA's maintenance operations are not always being carried out in a satisfactory manner and in accordance with HUD's requirements. Specifically, we noted that the SFHA:

- uses skilled craftsmen to make minor repairs not requiring their skill levels;
- does not ensure that maintenance staff repair units properly;
- discontinued its practice of identifying serious maintenance problems for immediate repair;
- made a decision to cancel over 17,000 work orders without fully determining that the repairs were no longer needed;
- pays its maintenance staff overtime for making non-emergency repairs; and
- does not complete routine maintenance requests in the order received.

**SFHA CONTINUES TO
USE ITS SKILLED
CRAFTSMEN
INEFFICIENTLY**

Despite our 1984 audit finding that SFHA was using its skilled craftsmen to perform minor repairs, we found that the SFHA did not correct this problem. In response to our prior audit, the Director, Public Housing Management Division, HUD San Francisco Regional Office, informed us on November 24, 1986, that the SFHA had successfully negotiated with its unions to establish a general maintenance position, called a "Maintenance Specialist". He also stated that the SFHA would fill any positions available as soon as wage rates were received from HUD's Office of Labor Relations. The Maintenance Specialist was to perform the general, or routine, maintenance work for which SFHA was using its skilled craftsmen.

In 1987, the SFHA drafted a job description for a Maintenance Specialist and hired two individuals for that position. Subsequently, the two individuals were reclassified as carpenters. The SFHA, however, did not attempt to fill the vacated positions because the labor

unions purportedly refused to renegotiate the Maintenance Specialist position.

Because the SFHA could not get its unions to accept the position of Maintenance Specialist, the SFHA continued its practice of using skilled journeymen craftsmen for minor repair work. Such use of craftsmen is not an economical use of operating funds since the work these individuals perform can be accomplished by lower paid, less skilled employees.

We also found that the SFHA budgeted its maintenance operations in an inefficient and ineffective manner (see Appendix B). For example, the SFHA allocated only 70 (39 percent) of its 179 maintenance employees, generally the skilled craftsmen, to make repairs to 6,689 units at 47 projects. The remaining 109 maintenance employees (e.g., laborers and custodians) primarily perform interior and exterior cleanup work. Therefore, the 70 employees responsible for repairing units also will likely be required to make ready for occupancy the up to 120 vacant units SFHA experiences monthly. Consequently, the 70 maintenance employees will have little time for performing routine repairs to units that are currently occupied. As previously mentioned, the SFHA lacks an effective process for ensuring that its units meet HUD's minimum standards.

In our opinion, it is imperative that the SFHA, with HUD's assistance, renegotiate with the unions to obtain their consent for using fewer journeymen craftsmen to perform minor repairs and for their acceptance of the Maintenance Specialist position. The SFHA should also evaluate the need for using 109 (61 percent) of its 179 maintenance employees primarily for interior and exterior project cleanup work (see Appendix B). Some of these 109 maintenance employees could undoubtedly be trained to make some of the minor unit repairs that are currently being performed by skilled craftsmen.

**SFHA's
MAINTENANCE
STAFF DOES NOT
ALWAYS IDENTIFY
AND CORRECT
CAUSES OF UNIT
DEFICIENCIES**

The SFHA's maintenance staff does not always repair units properly and, in some instances, does not always notify management of the actual causes of unit deficiencies and the repairs needed to correct such deficiencies. This condition is a result of the SFHA's lack of an internal control system for ensuring that all required repair work is properly identified, reported, and completed timely. As a result, the same unit damages are sometimes reported more than once, and, in some instances, the SFHA's maintenance staff repairs similar types of damages at the same unit more than once without correcting the causes of the damages.

We reviewed the work order history for 23 of the 103 units that we inspected and found 7 instances where the maintenance staff made repairs, but did not correct the actual causes of the problems. Three examples of this deficiency are shown below:

113 Laguna Street, Unit 403

Our June 23, 1992 inspection of this unit disclosed that the walls and ceilings in the living room, bedrooms and especially the bathroom were damaged from a water leak, possibly from the unit above. The residents stated the problem has existed for several years. They said the SFHA made repairs of the walls and ceilings but did not repair the water leak. Consequently, the walls and ceilings have been damaged. Our review of the work order history for this unit disclosed that 12 work orders had been issued between May 1989 and August 1991 for water leaks. (Note: The SFHA's computer system maintains only a three-year history.) Nine of the work orders indicated repairs were completed. The other three work orders were canceled with no explanation.

995 Connecticut Street, Unit 267

Our June 8, 1992 inspection disclosed massive damage to the walls and ceilings throughout the unit apparently caused by a water leak from the unit above. The residents said the problem had existed for 6 years and that the SFHA had been notified to make repairs numerous times but refused to do so. Our review of the work order history for this unit disclosed that five work orders for water leakage were issued between July 1990 and July 1991. Two of the work

orders indicated repairs were completed. The other three work orders were canceled with no explanation.

491 31st Avenue, Unit 418

Our May 21 and 27, 1992 inspections disclosed massive damage to the living room ceiling caused by a water leak outside the unit. A 10 to 15 foot square section of the ceiling appeared to be ready to collapse. The resident stated that the SFHA was notified about the problem on numerous occasions but was unresponsive. We immediately notified the SFHA of this condition. However, the SFHA had not taken corrective action at the time of our on-site audit work.

The unit's work order history disclosed that five work orders were issued between September 1990 and March 1992 to correct this same problem. Four of the work orders were canceled without any explanation and the other work order indicated the roof was repaired.

The maintenance staff's practice of cancelling some work orders without any explanations is an indicator that the SFHA's work order system is not operating effectively. The aforementioned examples demonstrate the SFHA's lack of controls for ensuring that all authorized repairs are completed properly and timely and that repairs which the staff are unable to complete are investigated and resolved in a satisfactory manner. As a result, the health and welfare of the SFHA's residents may be jeopardized.

In commenting on our draft report, the SFHA stated that buildings in the projects housing the three units in our examples have had a series of chronic leak problems. SFHA surmised that the leaks could be from a variety of sources, such as the roofs, exterior concrete cracks, windows, plumbing failures, or vandalism. SFHA indicated that in fiscal years 1991 and 1992 it requested a total of about \$1.7 million to investigate the causes of leaks at seven projects.

The SFHA's comments indicate that many of its units in addition to the ones we inspected may suffer from significant damages due to water leaks. Based on comments from the residents in the units we inspected and

the SFHA's own admission, these leaks have been long-standing problems, but have not been satisfactorily resolved. Residents at one unit stated that their leak problems had existed for about 6 years. However, the SFHA apparently did not assign a high priority to investigating the chronic leaks at seven projects until the past 2 years and likely contributed to its maintenance staff's poor performance.

We did not review the SFHA's Modernization Program as part of our audit. Therefore, we cannot comment on the adequacy of the \$1.7 million funding request in identifying the causes of the projects' leak problems. We noted, however, that the SFHA has estimated that its aging public housing inventory requires about \$330 million in needed repairs. Since the SFHA has not yet identified the causes of the projects' chronic leak problems, this estimate may be understated.

**SFHA DOES NOT
ADDRESS
EMERGENCY REPAIRS
EFFECTIVELY**

We reviewed 310 work orders to evaluate the adequacy of the SFHA's list of emergency repairs and the symptoms preceding such repairs. We found that, in June 1992, the SFHA had changed or updated its definition of emergency work orders but had failed to include symptoms that needed to be addressed immediately. Instead of analyzing its list to determine what items constituted an emergency, the SFHA reduced the list to include only "life threatening" situations. In our opinion, emergency work orders should include all work that could result in injury to residents or structural damage to projects. We found that the SFHA's list of emergency symptoms was not broad enough. For example, the SFHA's list did not include work items such as: leaking water (i.e., commodes, faucets, pipes, etc.) and inoperative ovens and ranges. The delays caused by labeling such symptoms as routine could result in costly future repairs or cause hardships or injuries to the SFHA's residents.

The SFHA's Senior Program Analyst stated that the SFHA changed its definition of emergency repairs because the previous definition included symptoms that were not "life threatening". Therefore, SFHA management decided to cancel all work orders which did not meet the new definition. Management's action limited the effectiveness of the SFHA's work order system. As a result of

canceling the emergency work orders, the SFHA did not complete the repair work which it had previously authorized and classified as emergency in nature. Moreover, the SFHA did not assess the effect of such cancellations on the health and safety of its residents.

We also found that the SFHA misclassified its emergency work orders. Work orders with emergency symptoms were sometimes classified as routine because the SFHA's staff input erroneous descriptions of the problems into computers or because of computer programming problems. As a result, misclassified emergency work orders were not responded to expeditiously.

The SFHA needs to improve its classification and processing of emergency work orders to assure HUD and its residents that it has the capability to address emergency situations effectively and timely.

During the period from March through June 1992, the SFHA canceled over 17,000 work orders citing the following reasons:

- (1) Routine work orders prior to January 1, 1991 had been completed since the initial requests;
- (2) Emergency work orders prior to January 1, 1992 had been completed since the initial requests;
- (3) Duplicate work orders (i.e., work orders describing the same problem) were prepared and completion of the problem required only one work order;
- (4) Work orders with the status "unable to perform" (unable to gain entry into the unit because of a dog, private lock, or entry not allowed) were considered completed after the SFHA attempted to complete the work order but was not allowed entry;
- (5) Work orders requested prior to the date of a new lease were considered completed because all crafts were sent into the unit to perform necessary work before the unit was released for occupancy;

SFHA CANCELED
OVER 17,000
OUTSTANDING WORK
ORDERS WITHOUT
FULLY ENSURING
THAT THE REPAIRS
WERE NO LONGER
REQUIRED

- (6) Duplicate work orders were prepared for force account work which had already been completed; and
- (7) The SFHA's employees (i.e. Dispatcher, Plumber Foreman, Director of Maintenance) believed that some work orders were no longer valid (i.e., old work orders with descriptions such as resident locked inside unit, bathtub stoppage, etc.).

We analyzed the SFHA's reasons for canceling the 17,000 work orders and concluded that three of the seven previously cited reasons, i.e., reasons 3, 6 and 7, were generally a sound basis for canceling the work orders. However, the cancellation of work orders based on the other four reasons was inappropriate, based on other findings in this report. For example:

- Reasons 1 and 2 assumed that the maintenance staff completed all routine and emergency work orders issued prior to January 1, 1991, and January 1, 1992, respectively. In our opinion, these assumptions were not valid because SFHA maintenance officials acknowledged that many work orders were issued to maintenance staff and subsequently misplaced. Therefore, SFHA had no assurance that the maintenance staff repaired the units. Further, our inspections showed that even though some repairs were reported as completed, the problems still existed.
- Canceling work orders because maintenance staff was unable to gain entry to a unit (Reason 4) was unacceptable. Section 209 of the ACC, requires the SFHA to maintain each project in good repair, order and condition. Consequently the lack of persistent action by the maintenance staff to gain entry to all units needing repairs was contrary to the SFHA's contract with HUD.
- Canceling work orders issued prior to the date a unit was leased (Reason 5) because the maintenance staff was purportedly sent to such units to make necessary repairs was inappropriate because the SFHA: (1) did not conduct move-in inspections to confirm that all repairs were completed; and (2) allowed some

residents to move into units that had not been repaired (as-is).

In our opinion, the SFHA's decision to cancel over 17,000 work orders without fully determining that the need for the repairs no longer existed was contrary to the SFHA's responsibility to provide its residents with decent, safe, and sanitary housing units that meet HUD's prescribed housing standards.

**SFHA DOES NOT
ADEQUATELY
MONITOR ITS
MAINTENANCE
STAFF'S USE OF
OVERTIME**

We reviewed 316 work orders where the SFHA paid its maintenance staff overtime for the period April through June 1992. We found that the SFHA unnecessarily paid overtime totaling \$3,662 to skilled craftsmen for 86 non-emergency work orders. Duty officers, project managers, and the Director of Maintenance erroneously approved most of the overtime based on requests for repairs from residents and/or maintenance staff. We noted that the SFHA correctly categorized the work to be performed as routine; however, it inappropriately approved overtime pay for completing the repairs. Examples of the non-emergency work performed by craftsmen receiving overtime pay are shown on the following page:

<u>Work Order No.</u>	<u>Hours Charged</u>	<u>Date</u>	<u>Type of Work Completed</u>
119926	2	4/20/92	Check alarm system
120717	4	4/23/92	General plumbing-replace pipes in wall
127374	2	6/22/92	Repair door

In our opinion, the SFHA's use of unnecessary overtime and skilled craftsmen for completing non-emergency repair work demonstrates poor management practices and lack of control over maintenance costs.

**SFHA's
MAINTENANCE
STAFF DOES NOT
COMPLETE WORK
ORDERS
SEQUENTIALLY**

During our review at the SFHA's maintenance office in June 1992, we noted that many of the routine work orders being issued to the maintenance staff had a June 1992 request date. We found that the maintenance staff had completed 3,014 routine work orders in June 1992. We also noted that the SFHA received 1,681 (56 percent) of the 3,014 completed work orders during that month. Since about 8,500 of the outstanding routine work orders were dated prior to June, we followed up to determine why the older work orders were not being issued. We asked the SFHA's Director:

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deterior

Patron: BARANSKI, JOHN

ILL: **5272463**

Lender: **UC4**

Rec: **1/31/01**

Due Date: **2/28/01**

Description:

Restrictions:

AUDITEE COMMENTS

(Note:

and the following section are those provided to us by the SFHA on August 25, 1992. The SFHA subsequently provided a summary of its comments and a revised version of its complete comments on our draft report on September 3, 1992; however, the September 3, 1992 comments are not significantly different from the SFHA's August 25 comments. We have included the SFHA's September 3 response in our report -- see Appendices H and I.)

The SFHA's Executive Director generally disagreed with our Finding and Recommendations relating to the SFHA's housing inspection and maintenance activities. He made a number of allegations relating to the accuracy of the data presented in our Finding and questioned our sampling

methods. He also questioned the objectivity and working knowledge of the HUD Appraiser/Construction Specialist who performed the HQS inspections for our office as well as the knowledge and experience of our auditors.

Regarding the portion of our Finding on SFHA's unit inspections and the units' condition, the Executive Director alleged that our conclusions were based on incorrect and inaccurate data, falsified quotes from official documents and a seriously inadequate sample of housing units. He stated that the SFHA reinspected the same units our office inspected and found fewer deficiencies. He acknowledged, however, that the number of deficiencies appears alarming, even by SFHA's count. He stated that the poor condition of SFHA's units was due to grossly inadequate HUD funding of modernization of facilities. The Executive Director estimated that SFHA's aging public housing inventory requires \$330 million in needed repairs.

Regarding the remaining portion of our Finding on SFHA's maintenance operations, the Executive Director contends that there are no standards available anywhere to determine the economy, efficiency and effectiveness of a PHA's maintenance operations. He further alleges that our office lacks support for our finding that SFHA's maintenance operations are not economic, efficient or effective. He stated that the audit ignored SFHA's recent management improvements to help address long-standing maintenance repair needs. Consequently, he believes that our office has no basis for concluding that SFHA's residents were not provided with units that met HUD's prescribed housing standards.

The Executive Director stated that our recommendation that SFHA renegotiate with labor unions regarding a more appropriate mix of maintenance employees was potentially a basis for major work force labor disruption.

OIG EVALUATION OF AUDITEE COMMENTS

In responding to our draft report, the SFHA Executive Director did not provide any documented evidence or new and creditable information in support of his allegations concerning the factual basis of our Finding and the knowledge and qualifications of the HUD Appraiser/Construction Specialist and auditors. Although we made a few minor revisions to this Finding in our final

report, we did not revise our overall conclusions and recommendations.

The Executive Director's negative comments regarding the knowledge and experience of our staff may be an attempt to deflect the impact of our findings on the SFHA's poorly managed inspection and maintenance programs. For example, the Executive Director alleged that the Appraiser/Construction Specialist lacked familiarity with the application of HQS to conventional housing and did not use the appropriate inspection forms. These allegations are totally without foundation. In fact, the HUD Appraiser/Construction Specialists for this review has over 14 years of experience in performing housing inspections, with the last 4 years focusing primarily on HQS inspections. Moreover, the Appraiser/Construction Specialist has inspected thousands of conventional and other types of housing units over this period. The Appraiser/Construction Specialist completed an optional 4-or-20-page inspection form for each unit inspected, including a one-page summary. He also maintains photographs of each violation detected. In contrast, the SFHA's project staff advised us that they were not familiar with the HQS and had not received any formal training on the standards.

The Executive Director alleged that our assessment of the condition of the SFHA's 6,757 units was based on inspections of only 103 units. We are not formally projecting a HQS-failure rate for all of SFHA's conventional housing stock based on our inspections of the 103 units. However, we believe the 87.4 percent failure rate for the 103 units is likely representative of the condition of most of the SFHA's conventional housing units.

The Executive Director alleged that there are no standards available anywhere to determine the economy, efficiency or effectiveness of a PHA's maintenance program. We disagree. As we indicated in the Objectives, Scope and Methodology section of this report, we conducted the audit in accordance with generally accepted government auditing standards. The Government Audit Standards for performance audits include guidance for assessing whether audited entities are using their resources (e.g. personnel,

property, space, etc.) economically and efficiently and in compliance with applicable laws, regulations and directives.

We do not believe that our recommendation that the SFHA, with HUD's assistance, renegotiate with labor unions to obtain a more appropriate mix of maintenance employees is likely to cause a major labor disruption, as implied by the Executive Director. Moreover, the SFHA, in 1986, successfully negotiated with its unions to establish a general maintenance position, called a "Maintenance Specialist." Consequently, we believe that the SFHA should not rule out completely the possibility of future successful negotiations with the unions to reestablish a similar position. We continue to believe that the SFHA's practice of using skilled journeymen craftsmen for minor repair work is not an economical use of operating funds. Considering the SFHA's estimate of over \$300 million in needed repairs to its housing stock, it should aggressively pursue all possible means of repairing and maintaining its units economically, effectively, and efficiently.

RECOMMENDATIONS

We recommend that you request the SFHA to:

- 2A. Provide for HUD's approval a listing of firms qualified to provide HQS training to appropriate staff.
- 2B. Implement controls to ensure all HQS violations are promptly identified and corrected.
- 2C. Immediately develop and implement an effective preventive maintenance program.
- 2D. Submit for your review and approval a maintenance staffing plan that contains an appropriate mix of skilled, semi-skilled and trainee craftsmen necessary to ensure all units comply with HQS.
- 2E. Develop and implement procedures and controls for ensuring that all necessary maintenance work is completed properly.
- 2F. Prepare for your review and approval a list of types of maintenance items that constitute an emergency.

- 2G. Cease canceling outstanding work orders without first verifying that the repairs have been properly completed.
- 2H. Contact all residents whose work orders were canceled and request that they inform the Maintenance Department of needed repairs.
- 2I. Establish and implement procedures and controls to ensure non-emergency repairs are completed only during regular working hours.
- 2J. Establish and implement controls to ensure routine work orders are generally issued in the order received.

We further recommend that you:

- 2K. Assist the SFHA in its negotiations with the labor unions to obtain the agreed-upon mix of maintenance staff.
- 2L. Ensure that the SFHA responds promptly to maintenance requests you determine to constitute an emergency.

THE SFHA DID NOT MAINTAIN COMPLETE AND ACCURATE BOOKS OF ACCOUNTS AND SOME ACCOUNTING PROCEDURES AND CONTROLS WERE QUESTIONABLE

We found that SFHA maintained inaccurate and incomplete books of accounts and records, did not use proper methods and procedures for allocating salary and fringe benefit costs, did not ensure proper accountability for and use of over \$1 million in tenants' funds, and owed the State over \$90,000 in unclaimed tenant funds. As a result, SFHAs' books of accounts and records are unreliable, disbursements are not properly supported and reviewed, costs are arbitrarily allocated among programs, and funds needed to cover tenants' security deposits are insufficient in the low-rent program. We attributed these deficiencies to SFHA's disregard of HUD requirements and generally accepted accounting standards, lack of responsible program management and oversight, failure to implement Independent Auditors' recommendations and HUD's instructions, lack of staff knowledge and training, and use of tenants' funds to cover operating expenses. The deficiencies identified by our audit represent a serious breach of SFHA's commitment to operate its low-income conventional housing program in an efficient, economical and effective manner.

SFHA AGREED TO COMPLY WITH FEDERAL REQUIREMENTS AND ESTABLISH MINIMUM CONTROLS NECESSARY FOR ENSURING ACCOUNTABILITY OVER CASH AND OTHER ASSETS

SFHA agreed, in its Annual Contributions Contract (ACC) with HUD, to administer its housing programs effectively and economically and in compliance with program requirements.

Section 309 of the ACC states, in part, that the PHA shall maintain complete and accurate books of account and records in connection with the development and operation of its housing projects. In addition to the ACC, other applicable Federal policies and procedures include Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments; HUD Guide HM G 7511.1, Low Rent Housing Guide; HUD Handbook 7510.1, Low-Rent Housing Accounting Handbook; and HUD Handbook 7485.1, REV-4, Public and Indian

Housing Comprehensive Improvement Assistance Program. Moreover, HUD regulations located at 24 CFR 85.20 (b)(3) require PHAs to establish accountability for cash and other project assets, and ensure that assets are used solely for authorized activities.

**SFHA DID NOT
MAINTAIN
COMPLETE AND
ACCURATE BOOKS OF
ACCOUNTS AND
RECORDS OR
IMPLEMENT
ADEQUATE
INTERNAL CONTROLS**

We reviewed the books and records for SFHA's Low-Rent Program operations for the period October 1990 to February 1992 to determine if SFHA was accurately reporting its cash receipts and disbursements. We found serious deficiencies in SFHA's financial activities and accounting practices and procedures. Specifically, SFHA: (1) shifted funds between programs; (2) did not prepare complete account and interfund reconciliations and post its books and accounts timely and properly; (3) did not maintain adequate internal controls for issuing manual checks; (4) did not maintain proper documentary support for disbursements; and (5) did not establish or use proper accounts.

These accounting deficiencies represent a serious breach of the SFHA's commitment to operate its low-income conventional housing program in an efficient, economical and effective manner. As a result, SFHA's books of accounts and records were not accurate or complete.

We attributed the deficiencies to SFHA management's inadequate oversight regarding the application of proper accounting practices and the accounting staff's lack of knowledge and disregard of HUD requirements and generally accepted accounting practices.

**SFHA BORROWED
FROM ONE PROGRAM
TO COVER FUND
DEFICIENCIES OF
ANOTHER**

Our review of SFHA's records disclosed that SFHA shifted funds between different programs (i.e., Low-Rent, Section 8 and CIAP) by borrowing from one program to overcome fund deficiencies of another. As a result, as of September 30, 1991, SFHA had receivables and payables due to and from the Section 8 Program, the Miscellaneous fund, and the Low-Rent Program.

By shifting funds between different programs, SFHA violated HUD requirements and generally accepted accounting practices by inappropriately using the funds of one program to pay for the expenditures of another.

**SFHA DID NOT
RECONCILE BANK
AND ACCOUNT
BALANCES AND POST
ITS BOOKS OF
ACCOUNTS AND
RECORDS TIMELY
AND PROPERLY**

SFHA did not complete account and interfund reconciliations and post its books of accounts and records in a proper and timely manner to ensure account balances were accurate. We found that from April through December 1991, SFHA did not reconcile the Revolving Fund bank account monthly. Instead, SFHA reconciled the April through September statements in January 1992, and the October through December statements in February 1992. Moreover, SFHA performed interfund reconciliations only on a yearly basis for fiscal years 1990 and 1991. The 1991 interfund reconciliation was not completed until March 16, 1992 (over 6 months after the end of the fiscal year).

In addition, SFHA carried forward outstanding checks for long periods of time without writing them off. As of February 29, 1992, SFHA had 52 outstanding checks totaling \$145,794.89, which dated from April 1987 to December 1991. According to an SFHA accountant, these checks had not been written-off because the Independent Auditors who had conducted the fiscal year 1989 audit told them to only write-off checks through March 1987. Consequently, the Controller has not written off any of SFHA's outstanding checks dated after March 1987. We believe the Controller misinterpreted the Independent Auditors' instructions. In our opinion, the Controller knew or should have known that holding outstanding checks for such lengthy periods was not a prudent accounting practice. As a minimum, the Controller should have sought further clarifications from the Independent Auditors.

We found that SFHA did not make all the journal entries suggested by its Independent Auditors. According to the Accounting Supervisor in charge of the General Ledger, SFHA did not close its books for fiscal year 1991 because it was waiting for the proposed journal entries from the 1990 independent audit, so the entries from both fiscal years 1989 and 1990 could be posted at one time.

SFHA's actions were contrary to HUD Guide HM G 7511.1 Chapter 3, which recommends that a trial balance of the General Ledger be taken at the end of each month to determine whether the general ledger is in balance. In our opinion, the trial balance is an essential tool of ensuring that SFHA complies with the ACC's requirements to

maintain accurate books and records. According to the Accounting Supervisor in charge of the General Ledger, SFHA has not made a trial balance since September 1991 because its books have not been closed for fiscal year 1991.

By not preparing account and interfund reconciliations and posting to its accounts and records properly and timely, SFHA cannot detect and correct real and potential discrepancies between its book of accounts and records. Reconciliations and postings are important features of accounting internal controls and should be performed diligently.

**SFHA DID NOT
MAINTAIN
ADEQUATE
INTERNAL CONTROLS
OVER EMERGENCY
MANUAL CHECKS**

In a memorandum to SFHA employees, dated July 2, 1990, the Controller stated that: "Manual checks are to be prepared on the basis of emergency situations only." We found that the Controller's memorandum was ineffective in controlling the issuance of manual checks because SFHA had not implemented adequate internal controls over the issuance of such checks. For example, SFHA did not require that supporting documentation be submitted and reviewed by authorized persons prior to issuing manual checks. Moreover, SFHA did not always post the expenditures to the appropriate accounts and records.

We found that SFHA continued to disburse a large number of manual checks despite the Controller's instructions. In fact, SFHA's disbursement of manual checks doubled from 70 in August 1990 to 146 in August 1991. As of February 29, 1992, SFHA had issued 38 manual checks between October 1991 and February 1992, totaling about \$1,023,944, which were described as "cashed but not processed". We determined that SFHA issued the 38 checks without any purchase orders or other supporting documentation, and failed to post the expenditures to the appropriate accounts. Therefore, the SFHA's accounts did not reflect over \$1 million in cash disbursements.

We reviewed the six largest "cashed but not processed" manual checks (see Appendix C), and found that SFHA had not posted and could not find support for a manual check for \$241,974.31. In our opinion, if we had not brought this check to SFHA's attention, it is questionable whether

this unrecorded disbursement would have ever been posted to SFHA's books.

In addition to the check for \$241,947.31, SFHA, as of April 12, 1992, had not posted five other checks totaling \$709,590.86, or a grand total of \$951,565.17, to the appropriate General Ledger accounts or prepared purchase orders or other appropriate supporting documentation.

Manual checks used for emergencies or on an exception basis are considered a normal part of business. However, large disbursements such as the ones we reviewed should have been anticipated and processed through SFHA's regular weekly check runs.

**SFHA DID NOT
MAINTAIN
ADEQUATE
SUPPORTING
DOCUMENTATION
FOR SOME
DISBURSEMENTS**

Although SFHA's Controller advised us that his staff reviews all disbursement vouchers and ensures that they are accompanied by adequate supporting documentation before releasing checks, our review disclosed that such controls are not implemented in all cases. For example, we selected 67 disbursement vouchers for review and found that 9 vouchers lacked complete and accurate supporting documentation, one voucher was missing, and the other 57 vouchers were properly supported. As of February 29, 1992, SFHA had not located the missing voucher.

When purchase orders or other supporting documentation for disbursements are not maintained or reviewed timely, and properly, the eventual recording of the expenditures cannot be assured. The weaknesses we identified at SFHA constitute a lack of internal controls over disbursements. In our opinion, SFHA needs to ensure that all disbursements are appropriate and provide adequate management oversight and review of all disbursement vouchers before checks are issued to vendors. Moreover, in the case of manual checks, SFHA needs to ensure that such checks are issued in emergency situations only.

**SFHA DID NOT
ESTABLISH OR USE
PROPER ACCOUNTS**

SFHA did not establish or use proper accounts in support of its day-to-day operations. As a result, SFHA's books of accounts do not reflect its true financial position and are generally not reliable.

Our review disclosed that SFHA did not classify all accounts properly, did not maintain subsidiary ledgers to

track individual charges to accounts, and maintained credit balances in receivable accounts and debit balances in payable accounts. In the latter case, a credit balance in a receivable account is in essence a payable and a debit balance in a payable account is a receivable and should be recorded accordingly.

In our opinion, SFHA's accounting practices violated HUD regulations and generally accepted accounting principles. For example, SFHA's practice of not properly maintaining its receivable and payable accounts may have led to the improper practice of borrowing from one account to cover fund deficiencies in another account. In another example, SFHA misclassified \$112,814 in money owed to its tenants as a receivable instead of a liability. This allowed SFHA to underreport its Tenants Accounts Receivable (TAR) liability to HUD and overstate its operating reserves (see also Finding 1). SFHA's Accounting Supervisor in Charge of Accounts Payable advised us that the apparent mishandling of receivables and payables was not a problem because the matter would be taken care of when the Independent Auditors prepared SFHA's financial statements.

We disagree with the Accounting Supervisor's assessment as it places undue reliance on Independent Auditors to correct internal accounting deficiencies. We believe SFHA needs to ensure that it establishes and uses proper accounts and accounting procedures on a continuing basis. SFHA can begin this needed improvement by providing its staff appropriate training and implementing adequate oversight to ensure SFHA's compliance with HUD requirements and generally accepted accounting principles.

**SFHA HAS
INSUFFICIENT FUNDS
IN ITS LOW-RENT
PROGRAM TO COVER
\$1 MILLION IN FUNDS
DUE TENANTS**

SFHA did not have the necessary funds in its Low-Rent Program to cover \$1,017,917 in monies due tenants, consisting of \$878,484 in tenants' security deposits and \$139,433 in refunds due former tenants. SFHA's Finance Department staff did not know what happened to the funds but thought they were probably used to pay operating costs. We attributed this deficiency to SFHA's disregard of HUD requirements and generally accepted accounting practices.

SFHA's Dwelling Lease Agreement, paragraph 4, states that tenants shall pay one month's gross rent or \$50,

whichever is greater, as a security deposit to be used at the termination of the lease to cover the cost of repairs for damages attributed to the tenants. It also provides that any funds remaining after appropriate deductions will be returned to the tenants. HUD Handbook 7510.1, Low-Rent Housing Accounting Handbook, Chapter 3, Section 1, provides instructions for PHAs on the use of General Fund Account 1114 for holding and managing these funds until they are claimed by tenants. The ACC requires SFHA to maintain complete and accurate books and records for all funds, including tenant funds.

Our review of SFHA's books of account showed that, as of March 31, 1992, SFHA had collected \$1,017,917 in tenant funds as follows:

Description of Account	Amount
Accounts Payable - Tenant Security Deposits (Account 2114)	\$ 878,484
Unclaimed Tenant Refunds (Account 2242)	26,619
Vacated Tenant Accounts Receivable with a Credit Balance (Account 1033)	112,814
Total Funds Due Tenants	\$1,017,917

While the books of account correctly showed that SFHA had payables (liabilities) of \$905,103 for tenants' security deposits and unclaimed refunds, we found no corresponding tenant cash trust fund accounts for these obligations. The remaining \$112,814 was money due former tenants for security deposits, overpaid rent, and maintenance and legal cost overcharges. SFHA accounted for the \$112,814 by deducting the amount from the Vacated Tenant Accounts Receivable balance, resulting in credit balance, rather than properly increasing Unclaimed Tenant Refunds (Account 2242) and a tenant cash trust fund. Consequently, the refunds due former tenants were commingled with general fund money and also used for paying operating costs.

**SFHA OWES THE
STATE OVER \$90,000
IN UNCLAIMED
TENANT FUNDS**

The Finance Department staff stated there has been no separate accounting for tenants' security deposits for at least 19 years and believed these funds were used to pay operating expenses. Although SFHA's books of account showed a total of \$1,017,917 due tenants and former tenants as of March 31, 1992, the Low-Rent general operating fund balance was only \$529,621 and the Low-Rent investment account only had a \$150,000 balance. As a result, SFHA lacks the funds necessary to cover tenants' security deposits and other monies due tenants.

SFHA owes the State of California (State) \$90,335 for unclaimed tenant funds (\$66,622), interest penalties (\$21,713) and a fine (\$2,000) because of its failure to comply with the State's Unclaimed Property Law. SFHA's Finance Department staff acknowledged they did not make the remittances because they did not know what to do with the unclaimed funds. As a result of SFHA's not paying the State timely, it has incurred unnecessary interest penalties and fines totaling \$22,557.

The State's Unclaimed Property Law (Code of Civil Procedure, Article 2, Section 1519) requires government agencies who maintain tangible personal property (e.g., security deposits of vacated tenants) in accounts that have remained unclaimed for more than three years to remit such money to the State by November 1 of each year. Article 6, Sections 1576 and 1577 state that failure to report and remit the funds results in 12 percent interest penalty for each year funds are not reported or transferred, and a maximum \$2,000 fine.

As we stated in the previous section of this Finding, SFHA had \$139,433 in refunds due to former tenants. These funds had been accumulating since at least 1982. To determine how much SFHA owed the State, we used 1982 as the starting point and November 1, 1991 as the cutoff date for submitting unclaimed funds. Based on these dates and funds on hand throughout that period, we determined that SFHA owed the State \$90,335 as follows:

- Tenant funds unclaimed for at least three years \$66,622

● Interest on funds on hand for over three years	21,713
● Fine for not transferring the funds	<u>2,000</u>
Total due the State	<u>\$90,335</u>

The Finance Department staff said they did not know what to do with the unclaimed funds and requested that SFHA's Legal Counsel research the problem; however, they did not receive a reply and did not follow up on the request.

**SFHA DID NOT USE
PROPER PROCEDURES
FOR ALLOCATING
SALARY AND FRINGE
BENEFIT COSTS**

SFHA allocated \$4,092,768 of budgeted salary (\$3,410,640) and fringe benefit (\$682,128) costs to its respective programs for Fiscal Year 1992 based on arbitrary percentages rather than on actual data derived from formal accounting records. Further, SFHA charged salary and fringe benefit costs to one program for employees whose responsibilities included work on other programs. As a result, costs applicable to SFHA's Low-Rent Program were shifted improperly to the Section 8 Program and Comprehensive Improvement Assistance Program (CIAP). Federal regulations do not specify what methods must be used to allocate costs between programs. They do, however, require that any methods used be properly supported and result in an equitable distribution of costs.

Although SFHA's staff stated that they believe their cost allocation methods for salary and fringe benefits were equitable, we found evidence that SFHA had previously acknowledged to HUD that its cost allocation methods were improper and would be changed. Specifically, a September 25, 1990 HUD monitoring finding disclosed SFHA's improper use of arbitrary percentages to allocate administrative salaries to the CIAP instead of actual hours worked. In a letter, dated October 29, 1990, SFHA informed HUD's Field Office that it would revise its cost allocation method to comply with CIAP requirements. Although we found that SFHA had not revised its improper cost allocation methods, the poor condition of SFHA's accounting records precluded any determination of the total costs that were inequitably allocated to SFHA's Low-Rent Program.

Our review disclosed that SFHA used two methods for allocating salary costs, which were established by a committee that included the Controller, several Budget Analysts, and the Director of Planning and Design.

Both methods involved allocating costs based on the percentages of units in the Low-Rent and Section 8 programs. When CIAP was included in the allocation process, the percentage for Section 8 units were applied first (e.g., generally 36 to 40 percent), with the remaining 60 to 64 percent arbitrarily allocated to the Low-Rent Program and CIAP. When the Section 8 program was not included in the allocation process, the percentages were completely arbitrary. Appendix D contains illustrations of SFHA's cost allocation methods under the different scenarios described above.

SFHA believed that its method of charging salary costs based on the percentage of units in the Low-Rent and Section 8 programs was the best approach to accurately allocating the costs to these programs. However, we found that this was not true. SFHA's method of allocating salary costs based on the number of units, as a percentage of all units, assumes incorrectly that equal staff time will apply to each unit. We found that day-to-day management of the 4,505 Section 8 units was accomplished by 28 (6.1 percent) of 460 SFHA employees. Moreover, SFHA's cost allocation method did not take into consideration the other programs where units were not a consideration (e.g., the Resident Initiatives Program).

In our opinion, it was unrealistic for the committee to allocate 36 to 40 percent of management and support staff time to the Section 8 Program since these employees had little or no involvement in the program's operations. We interviewed SFHA's Legal Counsel and Director of Personnel Services and obtained additional evidence that supported our conclusion that SFHA's method of allocating salaries was improper. These officials estimated that they spend from 10 to 20 percent of their time on Section 8 Program activities, not the 40 percent SFHA actually allocated to the Section 8 program for their salary costs (see Appendix D).

SFHA's methods of allocating budgeted fringe benefit costs differed from its salary allocation methods. According to a SFHA committee member, SFHA used the following three methods for allocating fringe benefit costs:

1. If a person worked on one activity (Low Rent, CIAP, Section 8 11-B Program, etc.), fringe benefit costs were allocated to that activity.
2. If a person worked on two activities, the fringe benefit costs were allocated to the two activities according to the time spent on each activity.
3. If a person worked on more than two activities, the fringe benefit costs were allocated to the activity where the most time was charged.

Our review of employees' pay cards for the April 18, 1992 pay period disclosed, however, that SFHA did not always use its stated allocation methods. For example, we determined that SFHA charged 100 percent of the Director of Rehabilitation and Construction's salary to CIAP, while it charged 100 percent of the Director's fringe benefit costs to the Low-Rent Program. If SFHA had followed its stated cost allocation method, it would also have applied all the Director's fringe benefit costs to CIAP.

In another case, SFHA allocated all salary and fringe benefit costs (\$148,926) of the Affirmative Action Officer and an Assistant Legal Counsel to CIAP. We interviewed these two employees, who advised us that they spend an average of 65 and 75 percent of their time, respectively, on CIAP, not 100 percent as implied by SFHA.

In our opinion, SFHA is not in compliance with Federal regulations in that it has not developed an equitable method of allocating costs to its respective programs, SFHA's current allocation system allows it to improperly shift costs applicable to the Low-Rent Program to its Section 8 Program and CIAP, thereby unjustifiably enhancing the financial position of the former program.

AUDITEE COMMENTS

(Note: The auditee comments referred to in this section and the following section are those provided to us by the SFHA on August 25, 1992. The SFHA subsequently provided a summary of its comments and a revised version of its complete comments on our draft report on September 3, 1992; however, the September 3 comments are not significantly different from the SFHA's August 25 comments. We have included only the SFHA's September 3 response in our report -- see Appendices H and I.)

The Executive Director generally disagreed with our Finding and recommendations. Because SFHA's comments were extensive, we summarized SFHA's comments as follows:

INTERFUND BORROWING

The Authority's practice of interfund borrowing, which is reflected by interfund receivables and payables which are fully disclosed, does not constitute commingling or a shift or transfer of funds. Section 401 (D) of the Annual Contributions Contract (ACC) refers to "monies borrowed" from the general fund to pay development costs.

RECONCILIATION

We acknowledge that account and interfund reconciliations have not always been completed as promptly as they should be. This is primarily the result of vacancies and turnover in staff assigned to this responsibility. The Authority plans to correct this problem within the next 90 days. Interfund reconciliations are prepared and reviewed on a monthly basis by SFHA staff as a pre-requisite for monthly General Ledger closing. Account reconciliations are done annually in conjunction with preparation of the annual audit.

OUTSTANDING CHECKS

The Authority's policy with regard to outstanding checks has been to recognize these checks as part of the bank reconciliation process, and to write off outstanding checks once a year on the basis of recommendations by the independent auditors.

POSTING OF BOOKS AND RECORDS

We acknowledge that there have been some delays in posting books of accounts and records. The SFHA's automated accounting system produces a General Ledger trial balance report monthly, which is reviewed by the Accounting Supervisor. The books have not been "closed" for fiscal year ending September 30, 1991 because the computer system will not allow reopening for posting of

auditors' adjustments after closing. As a result, we cannot "close" the books until all audit adjustments have been posted.

MANUAL CHECKS

Manual checks are issued under emergency conditions which cannot be accommodated by the SFHA's normal weekly check schedule. Manual checks may be issued subject to approval by the Controller or the Deputy Executive Director for Administration and Finance, and require appropriate documentation, including purchase requisition, invoices or receipts if appropriate, and additional documentation to support the payment request.

Of the checks identified by the auditors as "cashed but not processed", \$709,591 represented amounts paid to the San Francisco Police Department. They had not been posted to the General Ledger because a delay in execution of a final, revised agreement with the San Francisco Police Department resulted in our inability to prepare a purchase order.

QUESTIONABLE DISBURSEMENTS

The disbursements questioned by the auditors were payments for credit card charges and reimbursements to tenants or employees for expenses. In all cases, the SFHA has provided to the auditors copies of complete documentation that was attached to each disbursement voucher. The SFHA strongly disagrees with the auditors' contention that documentation for these disbursements was inadequate. The auditors did not identify any problems with disbursements to vendors.

TENANT SECURITY DEPOSITS

The IG's conclusion that the Authority did not have the necessary funds to cover \$1,017,917 consisting of tenants' security deposits (\$878,484) and refunds due former tenants (\$139,433) is incorrect. The Authority properly accounts for, and is fully able to cover security deposits and monies due its tenants. The IG auditors' contention that tenant security deposits should be maintained in a separate cash trust fund is not supported by law or regulation, nor is it consistent with sound fiscal management practices. It is not reasonable or necessary for the SFHA to maintain cash balances on hand to cover all tenant security deposits.

TENANT CREDIT BALANCES

We are in general agreement with the auditors' comments about the inappropriate classification of tenant credit balances in the tenant accounting system. We have begun the process of analyzing tenant accounts to determine whether credit balances should be refunded to tenants or should offset outstanding tenant charges.

SALARY ALLOCATION

The SFHA stated that its method of allocating salary and fringe benefit costs to its various programs was consistent with applicable federal requirements.

OIG EVALUATION OF AUDITEE COMMENTS

Based on the SFHA's response to our draft report, we made some changes to our final report. However, our conclusions and recommendations remain essentially the same. Following are our comments on the nine summary items listed in the previous section:

INTERFUND BORROWING

Federal regulations prohibit the shifting of funds between different programs by borrowing from one program to overcome fund deficiencies of another. SFHA's quoting of Section 401 (D) of the ACC is misleading. The borrowed monies referred to in Section 401 (D) pertain to monies borrowed and deposited into the General Fund to pay development costs, not loans from the fund.

RECONCILIATIONS

Reconciliations and timely posting of accounts are important features of accounting internal controls. They should not only be done to prepare for the annual audit, but also used as an accounting internal control. During our review we found that SFHA's interfund reconciliations were not prepared monthly, therefore they could not have been reviewed on a monthly basis.

OUTSTANDING CHECKS

The responsibility and function of the independent auditor is to audit the SFHA's financial statements to determine whether they are fairly presented in accordance with generally accepted accounting principles. The design, maintenance, and monitoring of an adequate system of internal accounting control is the responsibility of SFHA's management.

**POSTING OF BOOKS
OF RECORDS**

During our review trial balances were not available. According to the Accounting Supervisor in charge of the General Ledger, SFHA has not made a trial balance since September 1991 because its books have not been closed for fiscal year 1991. The SFHA needs to make appropriate changes to its computer system to accommodate required year-end closing.

MANUAL CHECKS

Manual checks should not be issued until all required documentation has been provided and properly approved.

**QUESTIONABLE
DISBURSEMENTS**

Supporting documentation was not attached to the disbursement vouchers when we reviewed the vendor files. The missing voucher we identified in our finding did pertain to a vendor for \$77,308.78 (check #428862).

**TENANT SECURITY
DEPOSITS**

Tenant Security Deposits are tenant funds held in trust by the SFHA and should be accounted for separately in the General Fund or an investment account for the Low-Rent Housing Program.

**TENANT CREDIT
BALANCES**

The credit balances we identified (\$90,000) were due to vacated residents after SFHA deducted amounts for damage, unpaid rent, maintenance or legal charges. Therefore, the \$90,000 is due the residents or the State of California.

**SALARY
ALLOCATION**

We do not agree with the SFHA's statement on its cost allocation methods. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, Attachment A, Paragraph J1, states that: "A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges."

The SFHA's method of allocating costs based on number of units is inappropriate since administration of the Section 8 units is substantially less staff intensive than Low-Rent units. Further, the unit allocation method ignores programs where units are not a factor (e.g., Resident Initiatives Program).

RECOMMENDATIONS

We recommend you require SFHA to:

- 3A. Develop and submit for HUD's approval a comprehensive Financial Management Improvement Plan to address the serious accounting and internal control deficiencies disclosed in our report.
- 3B. Obtain adequate staff training and implement other measures, as necessary, to correct the current books of accounts and records and maintain complete and accurate books of account and records in the future.
- 3C. Cease combining program funds and borrowing from one account to cover fund deficits in another.
- 3D. Operate the Revolving Fund as prescribed by the ACC.
- 3E. Establish and implement controls to ensure disbursement vouchers are fully supported and reviewed by a designated approving official before payments are made.
- 3F. Curtail the use of manual checks, or ensure they are issued for emergency purposes only.
- 3G. Deposit the \$1,017,917 in missing funds related to tenants security deposits, and any subsequent amounts, in proper trust accounts.
- 3H. Establish and maintain proper accounting records for funds due tenants.
- 3I. Remit to the State of California Controller's Office the \$90,335 due for unclaimed tenant refunds plus penalties and interest and any similar costs incurred after November 1, 1991.
- 3J. Establish and implement procedures to ensure future compliance with the State's Unclaimed Property Law.
- 3K. Establish and implement a HUD-approved cost allocation plan and method that equitably distributes salary and fringe benefit costs to the appropriate programs.

We further recommend that you:

- 3L. Closely monitor SFHA's financial management improvement efforts and ensure that SFHA improves its accountability over cash and other assets.

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THE SFHA USED PROJECT OPERATING FUNDS FOR UNNECESSARY, UNREASONABLE, AND INELIGIBLE EXPENSES

The SFHA used \$191,846 of operating funds for unnecessary, unreasonable, and ineligible expenses (see Appendix E). This money could have been more effectively used for the SFHA's day-to-day operations. In our opinion, SFHA officials need to become more responsible and accountable for their spending practices.

PHAs MUST USE OPERATING FUNDS PROPERLY AND EFFICIENTLY

The ACC, Section 406, states that PHAs will use operating receipts for costs which are necessary for project operations. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, states that costs must be necessary and reasonable for proper and efficient program administration.

SFHA USED \$191,846 OF OPERATING FUNDS FOR QUESTIONABLE PURPOSES

We reviewed the SFHA's use of operating funds to determine whether applicable expenditures were necessary and reasonable for the PHA's operations. We identified \$191,846 in operating costs which we considered unnecessary, unreasonable or ineligible. Appendix E of this report includes a listing of these expenditures. Following are descriptions of five of these expenditures and our reasons for questioning the funds' use.

- Office space and security services (\$65,910) - On February 1, 1991, the SFHA entered into a lease agreement with the Service Employees Union (Local 14) for office space at 241/243 Golden Gate Avenue to house the SFHA's Application Service Center. In addition, the SFHA, on June 17, 1991, contracted for security services at the Application Service Center. As of June 4, 1992, the SFHA's costs totaled

\$65,910, and included \$39,134 for rent, \$17,402 for security and \$9,374 for office renovation.

We questioned the entire expenditure because of the erroneous justification provided HUD by the SFHA. The SFHA claimed that the proposed new space would allow for expanded operations, provide a "storefront access" to the public, and be in close proximity to the SFHA's administrative building. We found that: (1) the new space did not allow for expanded operations; (2) the "storefront access", created a need for security service because foot traffic could enter the office directly and often disrupted operations; and (3) the office's proximity to the SFHA's administrative office showed no evidence of providing any measurable benefit. Moreover, the SFHA already owned at least 10,000 square feet of unoccupied and available office space on Egbert Street which it could have used for the Application Service Center.

Another alternative to relocating the Application Service Center to the Egbert Street property would be to relocate other SFHA staff there and bring the Service Center back to the SFHA's Turk Street space, thereby eliminating the need to rent the space on Golden Gate Avenue.

- Executive Director's Public Employee's Retirement System Contributions (\$25,004) - The Executive Director's May 8, 1989 Employment Agreement contained the following provision regarding "Benefits":

"The Employee shall be qualified for and entitled to, and shall participate in the Public Employees' Retirement System. The Authority shall pay, on behalf of the Employee, the Employee's contributions to the Public Employee Retirement System. Upon termination, the Employee agrees to reimburse the Authority an amount equal to the Employee's contribution plus all accrued interest."

As of June 27, 1992, SFHA paid \$25,004 for the Executive Director's retirement contributions. This expenditure is contrary to program requirements and comparable local

public practice. Therefore, we considered the \$25,004 an ineligible expenditure.

- Entertainment Costs (\$53,059) - Between October 1990 and June 1992, the SFHA used \$53,059 of operating funds for parties, meals and other related costs which were contrary to Federal regulations and the intent of the SFHA's ACC with HUD. As a result, the funds were not available to pay the SFHA's eligible operating expenses. The \$53,059 in ineligible expenditures consisted of \$43,436 for parties, \$7,995 for administrative leave for employees serving on the committees to plan parties and \$1,628 for local meals charged to the SFHA's credit cards (see Appendices F and G).

The SFHA's officials stated they considered the entertainment costs appropriate for funding from Federal operating subsidies because the activities potentially improved the morale of its employees and residents. The officials also stated that the meals at local restaurants were actually for business meetings.

Although the SFHA has no policy in effect prohibiting the payment of entertainment costs from Federal operating funds, OMB Circular A-87, Cost Principles for State and Local Governments, Attachment B, Paragraph D4, states, in part, "Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable." In addition, Section 201 of the ACC states that PHAs shall operate their projects in a manner which promotes serviceability, efficiency, economy, and stability, and to achieve the economic and social well-being of the residents. In our opinion, the SFHA's use of operating funds for entertainment-related expenditures does not comply with this policy.

As shown in Appendix F, the SFHA charged the operating accounts \$43,436 for parties, equipment rental, transportation and prizes. We consider the entire amount unallowable. Examples of these costs included: (1) \$1,150 for food and prizes; (2) \$777 for food, supplies and equipment rental for SFHA's Christmas Party; (3) \$1,255 for a reception; (4) \$1,479 for a luncheon for SFHA's

Director of Rehab and Construction; (5) \$4,158 for annual Summer tenant field trips and (5) \$2,199 for a "We're Off the List!" party, including invitations and banner, to celebrate SFHA's removal from HUD's "troubled" PHA listing.

As shown in Appendix G, the Executive Director and a former President of the Board of Commissioners (President) used or authorized the use of SFHA credit cards assigned to them to pay \$1,628 for local meals. Supporting documentation for the meal charges did not always show who the Executive Director and former President took to lunch or dinner. However, in at least 18 instances, SFHA employees, commissioners, and contractors doing business with the SFHA were shown as participants.

- New Vehicle Lease (\$18,247) - On July 8, 1992, the SFHA's Executive Director took delivery of a 1992 four-wheel drive Ford Explorer utility vehicle, apparently with all optional equipment. The vehicle was leased to the SFHA for three years at a cost of \$18,247 (\$506.86 monthly lease times 36 months). At the time the new vehicle was leased, the Executive Director was driving an SFHA-owned 1989 four-wheel drive vehicle with only 28,656 miles on the odometer as of February 19, 1992, and no unusual maintenance history. In our opinion, there was an insufficient basis for replacing the 1989 vehicle with the 1992 vehicle. Irrespective of the need for a new vehicle, the Executive Director's selection of a four-wheel drive utility vehicle with optional equipment (old or new) was inappropriate. The lease appeared to have been made solely to suit the Executive Director's personal preference and use and was an unnecessary use of operating funds.

According to the Executive Director's Employment Agreement with the SFHA, he is entitled to an expense-free automobile (including gas, oil, insurance, and maintenance) for his exclusive use. The agreement also stated that primary use of the automobile shall be related to the Employment Agreement. This agreement's provisions were contrary to the City and County of San Francisco's Administrative Code which limits the use of City and County vehicles to business purposes only. This Administrative Code also provides for annual inspections

of each vehicle that has been in service for 6 years or more, and driven more than 60,000 miles. Such inspections result in recommendations to retain, transfer or replace the vehicles. In our opinion, the SFHA's decision to replace a 3-year old vehicle with only 28,659 miles did not ensure the maximum use of leased vehicles and operating funds.

- Executive Director's prepaid annual leave (\$16,832) -
On January 2, 1991 and January 2, 1992, the Executive Director received \$7,962 and \$8,870, respectively, or a total of \$16,832, as payment for eight weeks (4 weeks x 2 years) of credited but unearned annual leave. We noted that the Executive Director's Employment Agreement, which was approved by the Board of Commissioners, provides that: "The Employee shall be qualified for and entitled to, and shall receive annual leave in the amount of four(4) weeks per annum. Annual leave shall be credited on each January 1, for the annum. The Employee may use accrued annual leave as paid leave from the Authority or may elect to receive payment in lieu of leave to a maximum of four (4) weeks per calendar year."

We believe the Board of Commissioners' approval of the Employment Agreement provision for "payment in lieu of leave" was improper since San Francisco City and County personnel policies do not authorize such payments.

In addition to the examples described above, other unnecessary, unreasonable, and ineligible expenditures included: (1) \$8,592 for 284 hours of administrative leave SFHA officials authorized for 23 employees in lieu of monetary compensation to recognize their extraordinary efforts and commitment; (2) \$1,333 for the Executive Director's airfare, lodging and miscellaneous costs for a trip to Dallas, Texas, which was not sanctioned by the sponsoring agency (National Commission on Severely Distressed Public Housing) as a "official" meeting; (3) \$1,207 for labor union initiation fees for four employees; (4) \$1,049 for employees' parking tickets while operating SFHA vehicles; and (5) \$612 for employees' personal long-distance telephone calls.

We believe the expenditure examples described above and listed in Appendices E, F and G demonstrated the SFHA's lack of compliance with comparable local public policy, HUD requirements, and the SFHA's own responsibilities for ensuring that operating funds are used economically and efficiently. Because the SFHA's operations are largely subsidized by the Federal Government through taxpayers, SFHA officials need to become more responsible and accountable for their spending practices.

**AUDITEE
COMMENTS/
OIG EVALUATION OF
AUDITEE COMMENTS**

(Note: The auditee comments referred to in this section and the following section are those provided to us by the SFHA on August 25, 1992. The SFHA subsequently provided a summary of its comments and a revised version of its complete comments on our draft report on September 3, 1992; however, the September 3 comments are not significantly different from the SFHA's August 25 comments. We have included only the SFHA's September 3 response in our report -- see Appendice H and I.)

The SFHA generally disagreed with our Finding and Recommendations. The SFHA disagreed that the expenses we questioned were unallowable or not in compliance with rules and regulations. The SFHA stated that we incorrectly contended that funds for tenant activities are unallowable. The SFHA also stated that HUD regulations encourage such activities. The SFHA's specific comments and our evaluation of those comments are as follows:

**AUDITEE COMMENTS
-OFFICE SPACE AND
SECURITY SERVICES**

The SFHA stated that, the Golden Gate Avenue office is located in the heart of San Francisco's Tenderloin neighborhood, which has one of the city's highest concentrations of homeless and very low-income families and seniors, and social service agencies serving these individuals. By contrast, the Egbert Street location, which the auditors suggest as a more cost-effective location, is in the southeast part of the city, approximately 4 miles away from the Civic Center -

Tenderloin area where most services for homeless and very low-income families are concentrated.

OIG EVALUATION OF
AUDITEE COMMENTS
- OFFICE SPACE AND
SECURITY SERVICES

We continue to believe that the rented space is an unnecessary expense, especially considering the SFHA owns over 10,000 square feet of vacant office space at their Egbert property. Although the rented Golden Gate property may be more conveniently located, the SFHA should consider other options, such as the one proposed in our report, as a means of reducing operating expenses.

AUDITEE COMMENTS
- EXECUTIVE
DIRECTOR'S
COMPENSATION

According to the SFHA, it attempts to achieve reasonable comparability with the City and County of San Francisco; however, the City's Administrative Code does not legally apply to the SFHA. The SFHA further stated that at the time the Executive Director's employment agreement was first approved by the Commission, the retirement contributions for other city department heads significantly exceeded the Authority's "employer share" contributions to PERS. Even under the terms of the current employment agreement, the Authority's contributions on behalf of the Executive Director have been, on average over the past three years, less than the retirement contributions for other city department heads.

OIG EVALUATION OF
AUDITEE COMMENTS
- EXECUTIVE
DIRECTOR'S
COMPENSATION

We do not accept the SFHA's explanation for paying the Executive Director's retirement contributions. Regardless of what percentage the City and County of San Francisco contributed for its staff, payment of the employee's share of PERS was not part of the compensation package.

AUDITEE COMMENT -
VEHICLE LEASE

The SFHA stated that, as provided by the terms of the Executive Director's employment contract, the SFHA provides an automobile for his exclusive use. The primary use of the vehicle is related to the performance of his official duties. The Executive Director's personal use of the vehicle is reported annually to the IRS as taxable compensation, in compliance with federal law. The SFHA further stated that this practice, and the costs associated with this lease, are not inconsistent with the practice of the City and County of San Francisco. SFHA believes while the Executive Director's choice of a Ford Explorer may be uncommon, the costs are not significantly higher than the cost of vehicles leased or purchased for other city department heads.

OIG EVALUATION OF
AUDITEE COMMENTS
- VEHICLE LEASE

We do not agree with the SFHA's justification of the Executive Director's vehicle lease. Although the City and County of San Francisco provide vehicles to certain employees, the vehicles may be used only for official business. Personal use is not allowed. We remain of the opinion that the lease of a four-wheel drive Ford Explorer was a misuse of the SFHA's low-rent funds.

AUDITEE COMMENTS
- ANNUAL LEAVE

According to the SFHA, the Authority's employment agreement relating to annual leave may actually be more fiscally prudent than the regular practice of the City and County. The SFHA further stated that the Executive Director's employment agreement simply permits the Authority to provide payments for unused annual leave on a year-to-year basis at the salary applicable at that time, rather than allowing unused leave balances to accumulate for payment at some future date at a significantly higher salary level. The SFHA stated that because this provision results in reduced costs to the Authority over the long term, it strongly disagreed with the auditors' contention that these costs are improper.

OIG EVALUATION OF
AUDITEE COMMENTS
- ANNUAL LEAVE

We disagree with the SFHA's response. We continue to believe that the use of Federal funds to pre-pay the Executive Director for unearned annual leave is improper.

AUDITEE COMMENTS
- OTHER
UNREASONABLE
COSTS, UNJUSTIFIED
TIME OFF

According to the SFHA, the Authority's Personnel Policies and Procedures were revised in February 1992 to eliminate compensatory time off for employees who are exempt from the Federal Fair Labor Standards Act, and to allow the use of administrative leave instead to recognize the extraordinary effort and commitment of employees whose responsibilities require work in excess of the normal work week. The SFHA stated that it did not agree that the Authority's administrative leave policy is contrary to local public practice. The SFHA believes that the Authority's policy is actually more fiscally prudent than the practices of many city departments.

OIG EVALUATION OF
AUDITEE COMMENTS
- OTHER
UNREASONABLE
COSTS, UNJUSTIFIED
TIME OFF

We disagree with the SFHA's response. We believe that the SFHAs granting of administrative leave, either retroactively or for non-work-related time, was inappropriate and cannot be justified on the basis of unidentified extraordinary effort or as fiscally prudent.

AUDITEE COMMENTS
- LABOR UNION FEES,
EMPLOYEE PARKING
TICKETS, AND
PERSONAL LONG-
DISTANCE CALLS

The SFHA stated that the auditors identified \$2,868 in costs (over a three-year period) which should have been reimbursed by employees. The SFHA agreed that the costs in question are the employees' responsibility.

OIG EVALUATION OF
AUDITEE COMMENTS
- LABOR UNION FEES,
EMPLOYEE PARKING
TICKETS, AND
PERSONAL LONG-
DISTANCE CALLS

Since the SFHA agreed that the costs were the employees' responsibility, we consider its comments responsive to our Finding and related Recommendation.

AUDITEE COMMENTS
- ENTERTAINMENT
COSTS

The SFHA stated that the auditor identified costs totalling \$53,059 over a period of nearly two years, which are characterized as "unallowable entertainment costs." Of this amount, \$43,436 was identified as costs for parties and related expenses. The SFHA further stated that, while the description of these costs implies that they were for parties and other activities for Authority employees, more than two-thirds of the items identified by the auditors in this category were for tenant events.

The SFHA disagreed that these costs for tenant events are unallowable. The SFHA stated that it strongly defended these modest expenditures on behalf of its tenant organizations.

The SFHA stated the auditors have also included in this category of "unallowable costs", costs for two of the Authority's annual employee picnics, and one Christmas breakfast for employees. The SFHA's position is that such events are important for maintaining and improving

employer-employee relations and employee morale, and as such are authorized by OMB Circular A-87.

The SFHA stated that it does, however, agree that the costs for non-tenant events and staff activities should more appropriately be paid from a source of funds other than the Low-Rent Operating Budget.

The SFHA stated that the auditors identified costs totalling \$1,628 for local meals. According to the SFHA, these are business meal expenses for meetings involving the Executive Director, Commissioners, staff, consultants, local public officials, and resident leaders. While the SFHA believes these are legitimate costs of performing the Authority's governmental business, it agreed to charge such costs to a fund source other than its Low Rent Operating Budget.

OIG EVALUATION OF
AUDITEE COMMENTS
- ENTERTAINMENT
COSTS

We continue to believe that the entire \$53,059 is unallowable. OMB Circular A-87, Cost Principles for State and Local Governments, Attachment B, Paragraph D4 states, in part, "Costs of amusements, social activities and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation and gratuities, are unallowable. The costs we identified were entertainment expenses regardless of the reason. Also, the OMB Circular applies to all federally provided funds, therefore alternate sources of funds the SFHA uses to reimburse the Low-Rent Program cannot be Federal program funds.

RECOMMENDATIONS

We recommend you require the SFHA to:

- 4A. Re-evaluate the lease and security contracts for the Golden Gate Avenue property and consider moving the Application Service Center to the SFHA's Egbert Street property; or moving other staff to that property and moving the center back to 440 Turk Street.
- 4B. Revise the Executive Director's Employment Agreement provisions for retirement contributions, vehicle use and annual leave to conform to local public practices and enforce those provisions.
- 4C. Obtain reimbursement from the Executive Director for the \$25,004 plus interest the SFHA paid on his behalf to the Public Employee Retirement System and

all similar payments plus interest made after June 17, 1992.

- 4D. Document the cost of a typical vehicle provided to City and County officials with positions comparable to the SFHA Executive Director's as well as the vehicle's average monthly operating costs for local business travel.
- 4E. Apply the costs established in Recommendation D to like costs for the Executive Director's new leased vehicle and collect the difference from the Executive Director for his personal use of the vehicle.
- 4F. Revise the SFHA's personnel policy by deleting the provision authorizing administrative leave in lieu of monetary compensation to recognize certain employees for their extraordinary efforts and commitments.
- 4G. Reimburse the General Fund from non-Federal monies for the \$9,926 in unjustified paid staff time off and the Executive Director's non-SFHA travel cost.
- 4H. Discontinue the practice of granting staff paid time off that is not in accordance with local public practice.
- 4I. Collect \$2,868 from its employees for identified union dues, parking tickets and personal long-distance telephone calls through May 1992, and any similar subsequent costs.
- 4J. Establish and implement controls to ensure employees pay their own union dues and parking tickets and stop using the SFHA's telephones for personal long-distance calls.
- 4K. Reimburse its appropriate operating funds \$53,059, for the identified unallowable entertainment expenses and any similar costs incurred since June 1992, and that such reimbursement be from non-Federal funds.

- 4L. Discontinue its practice of using Federal funds to pay unallowable entertainment costs.
- 4M. Adopt and publish an administrative policy prohibiting the payment of entertainment expenses from Federal operating subsidies.

We further recommend that you:

- 4N. Closely monitor the SFHA's use of operating funds to ensure that these funds are used only for necessary, reasonable, and eligible project expenses.

THE SFHA's TENANT SELECTION AND MANAGEMENT PRACTICES NEED TO BE IMPROVED

From about 1989 to the present, SFHA has not carried out its tenant management services effectively, efficiently and economically. Specifically, SFHA: (1) did not afford eligible applicants on its waiting list the rightful opportunity to occupy available housing units; (2) needed to transfer about 30 percent of its tenants due to over/underhousing or health and safety concerns; (3) did not timely collect rents and evict tenants for nonpayment of some rents; and (4) did not collect additional income due from tenants for repairs, excess utility usage, and late rents. We attributed these long-standing deficiencies to SFHA's lack of compliance with HUD's and its own procedures for selecting applicants, collecting rents, and providing other tenant management services. As a result, applicants were not selected from the waiting list, as required; housing resources were not used properly; and SFHA lost much-needed rental income.

SFHA AGREED TO IMPLEMENT HUD'S REGULATIONS AND ITS OWN POLICIES AND PROCEDURES FOR PROVIDING A VARIETY OF TENANT MANAGEMENT SERVICES

In its ACC with HUD, SFHA agreed to comply with HUD regulations and procedures relating to public housing occupancy and admission, and rent collection and enforcement. These regulations and procedures may be found in HUD Handbook 7465.1 REV-2. The Public Housing Occupancy Handbook: Admissions; 24 CFR Parts 1, 965, 966 and 882; and HUD Handbook 7460.7 REV-1 Field Office Monitoring of Public Housing Programs. In addition, SFHA is responsible for implementing its own rent collection policy and the provisions of its Dwelling Lease agreement with tenants.

As shown in the following sections, SFHA did not comply with HUD's regulations and its own policies and did not meet its overall responsibilities for providing effective tenant management services.

**SFHA DID NOT
COMPLY WITH HUD'S
REGULATIONS IN
SELECTING
APPLICANTS FOR ITS
HOUSING UNITS**

To achieve an apparent management-mandated 99-percent occupancy rate, the SFHA did not comply with HUD regulations in selecting applicants for its housing units. The SFHA did not use its waiting list when placing applicants primarily because:

- Applicants referred by four City of San Francisco departments were less likely to reject units.
- Ineligible applicants were more likely to be housed in hard-to-rent units.
- Other applicants might accept units "as-is", rather than wait for SFHA to make them ready for occupancy.
- Applicants were sometimes housed based on ethnic/project preferences.

As a result, applicants on the waiting list were not afforded their rightful opportunity to occupy SFHA's housing, ineligible applicants were allowed to occupy SFHA's units, applicants were placed in nonstandard units, and project placement was highly ethnic.

SFHA's actions were contrary to the provisions of HUD Handbook 7465-1 REV-2, on selecting eligible applicants from the waiting list and admitting single persons without prior HUD authorization. SFHA's practice of placing applicants in ethnically identifiable projects violated the provisions at 24 CFR Part 1, Section.4(b)(2)(ii).

SFHA, in a report entitled "Restoring Control: The First Two Years, Executive Director's Semi-Annual Report, October 1, 1990 - March 31, 1991," acknowledged that it was disregarding HUD regulations. In the report, SFHA stated that its public housing waiting list has not been officially open since 1988. The report also stated that, over the last several years, the goal of property management has been to lease a unit to an applicant which equates to an expeditious lease irrespective of a waiting list number. The report concluded that this leasing arrangement has evolved into several unorthodox procedures in continuous violations of HUD regulations.

SFHA's report identified unorthodox procedures, in part, as accepting:

- Applicants referred by the city's social service agency, thus circumventing the waiting list; and
- Walk-in applicants referred by project managers.

Another procedure not discussed in the Executive Director's Semi-Annual report was the staff's acknowledged practice of referring applicants to units based on project preference or ethnicity.

Between July 1, 1991, and December 31, 1991, SFHA housed 536 applicants. We determined that 490 of the 536 applications were dated after 1988 when the waiting list was closed. The applicants were referred almost exclusively by the City of San Francisco Mayor's office, Department of Social Services, Central Relocation Services, Department of Public Health, and SFHA project staff. Following are five additional examples where the SFHA's did not follow HUD's regulations in placing applicants:

- Twenty-nine of the 490 applicants housed after 1988 when the waiting list was closed were single persons referred by the four City of San Francisco departments. Eighteen of the 29 single persons were ineligible for housing because they were not elderly, displaced¹ or the remaining member of a tenant family. After admission, 17 of the 18 applicants were a total of \$7,064 in arrears on their rent as of May 1, 1992. Four of the 17 applicants had vacated their units and the other 13 were in the process of being evicted for nonpayment of rent.
- For the 46 applicants who had applications dated prior to 1989, we found no evidence that their

¹A displaced person is someone displaced by government action or whose dwelling was extensively damaged or destroyed due to a disaster declared or formally recognized by the Federal government. This includes persons who lose their homes through urban renewal or because of a flood, hurricane, etc., where a Federal disaster was declared for their area.

selection for units had anything to do with the waiting list.

- HUD's San Francisco Regional Office (SFRO), in a Coordinated Management Review report dated January 5, 1989, cited SFHA for circumventing the waiting list by giving preference to applicants that agreed to accept a unit "as-is". "As-is" refers to a unit that purportedly requires only minor repairs, which are to be performed by the applicant or completed by the SFHA staff within 72 hours. In its November 27, 1990 response to HUD, SFHA stated that it had instituted the "as-is" policy as a way of significantly reducing vacancies. SFHA also stated that its current occupancy rate was 98.9%, that it no longer had a need for the "as is policy", and that the policy was no longer in force. In scanning SFHA's records, however, we found that SFHA had given 17 applicants rent credits between May and August 1991 for accepting "as-is" units. Further, SFHA was still using this procedure in 1992, since we noted that an applicant signed an "as-is" acceptance statement on March 30, 1992.
- SFHA's referral process allowed applicants to select their project preferences. Our review of a sample of 77 applicant files which had applications dated before 1990 disclosed that 71 applicants had Asian surnames. SFHA personnel stated that the high number of Asian applicants not housed resulted because SFHA staff did not refer Asians to areas outside of Chinatown.
- In the HUD Office of Fair Housing and Equal Opportunity's (FH&EO) Final Investigative Report, Title VI Compliance Review of the San Francisco City and County Housing Authority, dated June 17, 1991, for the 2-year period ending December 31, 1987, FH&EO cited SFHA, in part, for having 13 racially identifiable projects. We reviewed the ethnicity of 4 of the 13 projects FH&EO identified and found that the applicants placed in the units between July and December 1991 generally reflected the ethnicity of the projects as follows:

<u>Project</u>	<u>Applicant Ethnicity</u>	<u>Project Ethnicity</u>
Hayes Valley	28 of 33/85% (AA)	83% (AA)
Yerba Buena Plaza	35 of 37/95% (AA)	93% (AA)
Ping Yuen North	4 of 4/100% (A)	94% (A)
Ping Yuen	2 of 2/100% (A)	97% (A)

(AA) = African American (A) = Asian

In our opinion, the above information illustrates that the SFHA was not complying with HUD regulations on placing applicants. Further, SFHA's not selecting applicants on its waiting list was a breach of its contract with HUD prohibiting discrimination against persons eligible to participate in its Low-Rent Program.

**SFHA NEEDS TO
TRANSFER NEARLY
30 PERCENT OF ITS
TENANTS TO OTHER
UNITS**

SFHA's records, as January of 1992, show that 1,995 (29.8 percent) of the 6,689 families housed by SFHA needed to be transferred to different units because they were either over/underhoused or were residing in units adversely affecting their health or safety. As a result, some tenants are residing in substandard and unsafe conditions while scarce housing resources are being wasted because other tenants are occupying units larger than their family size warrants. Further, tenants living in life threatening situations are not being provided a safe living environment. We attributed these unacceptable conditions to SFHA's overemphasis on the goals of obtaining a 99-percent occupancy rate and reducing its units turnaround time (see Finding 1) irrespective of HUD's regulations.

HUD Handbook 7465.1 REV-2, Public Housing Occupancy Handbook: Admissions, states in part, that PHAs must adopt policies approved by HUD which cover the circumstances under which a transfer would take precedence over admission. Change 1 of the Handbook further states that the PHA must set reasonable occupancy standards which will assist as many people as possible without overcrowding the unit or the project and which will minimize vacancies. Moreover, the regulations at 24 CFR

882, Section 109(c)(2) require that there be at least one bedroom for each two persons.

HUD Handbook 7460.7, REV-1 Field Office Monitoring of Public Housing Programs, paragraph 5-2A, requires the PHA to maintain its projects in accordance with Section 8 Housing Quality Standards.

HUD, in a monitoring report dated January 5, 1989, noted that SFHA had more than 450 over/underhoused families and recommended that SFHA take action to ensure that these families were placed in proper sized units. As of January 31, 1992, SFHA had not heeded HUD's recommendation, as there were 1,960 over/underhoused families. Further, as of April 1992, 35 families resided in units posing adverse health and safety conditions (i.e., tenants who were under the witness protection program, tenants who were being threatened by neighbors or who had severe medical problems) that were waiting to be transferred to other units. Only 23 of the 35 families were on SFHA's priority transfer list. The other 12 families were added to the list only after we notified SFHA's Eligibility Manager that the list did not reflect all the requests for transfers on file.

According to the Eligibility Manager, the situation with the over/underhoused tenants was not likely to improve as her staff has been unable to place all the priority transfers. She said tenant transfers were secondary to SFHA's policy to immediately lease vacant units so as to maintain a 99-percent occupancy rate and reduce the time required to turn around the units.

**SFHA DID NOT
ALWAYS ENFORCE
ITS RENT
COLLECTION
PROCEDURES**

SFHA did not always collect rents and evict tenants for non-payment of rents as required by its rent collection policy. As a result, Tenants Accounts Receivables (TARS), which totaled about \$1,042,000 at June 30, 1992, were exceedingly high and SFHA was denied the use of needed funds (see also Finding 1). Further, untimely collections and evictions contributed to SFHA's need to write off \$1,141,565 of TARs as uncollectible between October 1990 and June 1992. SFHA's noncompliance with its collection policy was the result of its lack of control over rent collection procedures and insufficient management emphasis on tenant management issues.

SFHA's Rent Collection Policy states that: (1) rents shall be paid promptly when due; and (2) evictions shall be pursued and processed in a timely manner on non-payment of such rents.

The Project Managers' Eviction Procedures Manual states that, in order to evict a tenant for unpaid rent, the law requires that a 14-day notice and a 3-day notice be served on the tenant(s). The 14-day notice notifies tenants that they are delinquent in their rent payments and allows the tenants 14 days to pay the full amount owed, as stated in the notice. It also informs them that an eviction action will be filed in court if they fail to pay the rent or file a grievance. The 3-day notice is sent to a project office for processing if a delinquent tenant does not comply with the 14-day notice. The 3-day notice, which is generated from the PHA's own data processing service, requires that tenants pay the rents due or surrender possession of their units to the agency.

If delinquent tenants do not bring their rent current, file a grievance, or surrender possession of their unit to the agency, the project manager or designee will complete a legal package and forward it to the rent collection department (Legal Department). Tenants whose cases are taken to court by the Legal Department can enter into a stipulation agreement. In signing the agreement the tenant agrees to comply with a payment plan to eliminate the overdue rent or give up possession of the unit.

We selected for review the records of 75 of 1,365 tenants from 8 projects who were delinquent one month or more in rent payments as of February 13, 1992, to determine if the project managers' collection efforts were timely. As shown below, SFHA's rent collection efforts were not timely or effective because:

- The 75 tenants owed SFHA \$124,900 in delinquent rents.
- The tenants' files lacked evidence indicating that the project managers had complied with SFHA's collection and eviction procedures.

- The average length of delinquency for the 75 tenants was 19 months².
- Twenty-nine of the 75 tenants, whose average length of delinquency was 20 months and who owed \$53,947 in delinquent rents, were referred to SFHA's Legal Counsel only after we started our review.
- Two tenants had filed suits against SFHA because of uninhabitable units and were awaiting rent settlements.
- Project managers had accepted less than the required payments from some delinquent tenants, thereby negating the prior collection and eviction actions taken by the Legal Department.

To determine the timeliness of SFHA's Legal Department in handling referrals, we reviewed the files for 30 additional delinquent tenants whose unpaid rent balances totaled \$48,953 and who project managers had referred for eviction proceedings. Our review disclosed that the Legal Department was not taking timely action on the referrals. For example, when the 30 tenants were referred to the Legal Department between October 1989 and December 1991, their unpaid rent totaled \$48,953. As of January 28, 1992, however, the 30 tenants were still in their units and the amount owed to SFHA had increased by \$39,455 and totaled \$88,408. Ten of the tenants had not made any rent payments during 1991, but the Legal Department had not implemented any eviction proceedings. Moreover, as of February 1992, the Legal Department had waited up to six months for seven of the 30 tenants to execute court-ordered stipulation agreements.

Although the Legal Department obtained court-ordered stipulation agreements for a total of 55 tenants in 1990 and 1991, SFHA did not enforce the agreements. We found that six of the 55 tenants had complied with the agreements; however, the other 49 tenants had not. As a

²The above averages were computed from March 1990 to February 1992 because SFHA maintains tenant payment histories for only 24 months, therefore, the 19-and 20-month averages are not true averages and are probably significantly understated.

result, the Legal Department canceled 20 of the 49 agreements because they believed the agreements were too old to enforce. As of March 17, 1992, the 20 tenants with canceled agreements owed SFHA \$42,252. In addition, the remaining 29 agreements were still active; however, the 29 tenants had not complied with their stipulation agreements and had not been evicted. As of March 17, 1992, the 29 tenants owed SFHA \$51,001.

We also found that SFHA showed favoritism or reluctance in collecting overdue rent from certain delinquent tenants, as shown in the following cases:

- As of May 1992, one of SFHA's employees, a former member of the Board of Commissioners, owed SFHA \$12,277 in delinquent rent. The Legal Department stated that the Executive Director authorized the employee to repay the \$12,277 arrearage in monthly payments of \$49. At \$49 per month, it would take the employee 21 years to pay the delinquent debt.
- As of May 1992, another tenant owed \$8,446 in delinquent rent and SFHA had made no serious effort to collect the amount owed. SFHA's reluctance to collect this delinquency appeared to be related to the tenant's outspoken criticism of SFHA's operations and involvement in an ongoing suit against SFHA for alleged substandard housing.
- As of May 1992, a current member of SFHA's Board of Commissioners owed SFHA \$2,231 in delinquent rent, primarily as a result of SFHA's lack of enforcement of a June 20, 1990 court-ordered stipulation agreement that required the tenant to make the required \$100 monthly rental payments, in addition to her current monthly rent of \$154. This tenant received \$100 for attending two monthly Board of Commissioners meetings (see also Finding 6) and, at the time of our audit, had made no rental payments, except for the \$100 that SFHA applied against her rental rate and delinquent rent balance each month. Therefore, the tenant's delinquent rent balance increased by \$54 per month to a balance of \$2,231 at May 1992.

- As of March 1, 1992, 23 additional tenants, who were also SFHA employees, owed \$17,713 in overdue rent. We found no evidence of any effort by SFHA to collect the amounts owed. In addition, two former tenants, who were also, SFHA employees, owed SFHA \$3,367 at the time they moved out. Again, SFHA took no action to collect the delinquent rents.

In our opinion, SFHA's untimely collection of delinquent rents was due to inadequate controls for ensuring that its project managers complied with rent collection procedures and legal staff handled referrals promptly. Moreover, apparent favoritism shown to certain tenants, such as SFHA employees or Board-Members, perpetuated the delinquency problem. Also, a March 11, 1992 internal memorandum from the Legal Department to a property manager (see Appendix A) outlines the typical ineffective collection activities and lack of coordination and cooperation between the property managers and legal staff that prevented timely enforcement of SFHA's eviction procedures.

SFHA DID NOT COLLECT ADDITIONAL INCOME DUE FROM TENANTS FOR TENANT-CAUSED DAMAGES, EXCESS UTILITY USAGE, AND LATE RENT PAYMENTS

SFHA did not collect additional income from tenants due to its practice of not charging tenants for the repairs their actions necessitated, excess utility usage, and late rent payments. This situation occurred because SFHA officials decided not to enforce their own collection procedures, and the Executive Director decided not to charge tenants for excess utility charges. Consequently, SFHA officials did not meet their responsibility for operating each project economically, as required by Section 201 of the Annual Contributions Contract.

SFHA HAS NOT IMPLEMENTED THE REQUIREMENT TO COLLECT FOR TENANT-CAUSED DAMAGES

The regulations at 24 CFR Part 966, Section 4(f)(10) and SFHA's Dwelling Lease, Paragraph 5d, requires that SFHA charge tenants for the costs of repairing damages attributable to the tenants or their guests.

The latest audited financial statements, for the 12 months ended September 30, 1990, showed that SFHA spend \$10,219,147 for ordinary maintenance operations; however, this was no evidence that in-place tenants were charged for repairs.

Our review of 626 maintenance work orders with repairs completed between April 1992 and June 1992 disclosed that only one maintenance person identified 6 instances where the damages or need for repairs were tenant-caused. Even where the damages were identified as tenant-caused, there was no evidence that SFHA charged tenants for the necessary repairs.

We interviewed SFHA's Assistant Director of Conventional Housing and the Director of Maintenance to determine why the maintenance staff were not identifying the causes of damages to units or the need for repairs so that the tenants could be charged, where appropriate. The Assistant Director stated he thought tenants were being charged, while the Director of Maintenance would not comment.

While we were unable to determine how much of the \$10,219,147 SFHA spent for ordinary maintenance and operation costs was attributable to tenant-caused damages, we believe the amount would have been substantial if SFHA had implemented adequate procedures for identifying and reporting these damages. In our opinion, SFHA may be losing much-needed additional income due to its noncompliance with HUD requirements and its own Dwelling Lease agreement that it charge tenants for repairing tenant-caused damages.

SFHA HAS NOT
MONITORED
TENANTS FOR
EXCESS UTILITY
USAGE SINCE ABOUT
1989

The regulations at 24 CFR Part 965, Section 401, address HUD's policies in support of energy conservation at PHA projects which call for reducing energy consumption with corresponding reductions in operating costs. Section 402(b), identifies checkmeters as one method of implementing the policies. A checkmeter is a device for measuring utility consumption within each individual dwelling unit where the utility service is supplied to the PHA through a Mastermeter. The PHA then ascertains from its reading of the installed Checkmeter the amount of tenant usage and surcharges to be assessed for the tenants' excess utility usage.

SFHA had 15 projects where checkmeters had been installed at each of the 3,387 units (about 50 percent of the SFHA's Low-Rent units). When we asked for the current checkmeter readings, SFHA staff told us the checkmeters had not been utilized since about 1989. According to the

staff, the Executive Director decided that since the meters were vandalized at the Alemany project, it would be unfair to charge the tenants at the other 14 projects for any excess utility usage.

The Executive Director's decision not to charge 3,230 tenants at 14 projects for their excess utility usage because the 157 checkmeters at Alemany were vandalized was contrary to his responsibility to operate projects in an economical manner.

**SFHA HAS NOT
ASSESSED TENANTS
FOR THEIR LATE
RENT PAYMENTS**

Although, Paragraph 3 of SFHA's Dwelling Lease states, "A late charge of \$10.00 will be assessed to each Tenant if the monthly rent payment is not received by the SFHA by the 10th day of the month," SFHA did not assess the fee. SFHA personnel stated that their computer system does not document the dates tenants make their rent payments; instead, it documents the date the computer program that posts the payments is run. Therefore, SFHA cannot differentiate between late payments and delays in running the computer program. For example, if the tenant makes a payment on the 9th of the month and the computer program is run on the 11th of the month, the tenant's records show the payment as being made on the 11th.

Since the late charge provision in the Lease agreement was established to encourage tenants to pay their rent promptly, SFHA's lack of assessment probably contributed to the \$929,501 tenants owed in overdue rent as of June 30, 1992.

SFHA officials' lack of procedures and decisions not to charge tenants for appropriate repairs, excess utility usage and late rent payments resulted in loss of revenues. We believe SFHA should aggressively pursue all available channels for improving its income base.

**AUDITEE COMMENTS
AND OUR
EVALUATION**

(Note: The auditee comments referred to in this section and the following section are those provide to us by the SFHA on August 25, 1992. The SFHA subsequently provided a summary of its comments and a revised version of its complete comments on our draft version on September 3, 1992; however, the September 3 comments are not significantly different from the Authority's August 25 comments. We have included only the SFHA's

September 3 response in our report -- see Appendices H and I.)

SFHA's Executive Director generally disagreed with our Finding and each of our Recommendations. He did not provide any new information which would cause us to revise our overall conclusions and recommendations.

Following is a summary of SFHA's specific comments, which are identified by subject area, and our responses to the comments.

**AUDITEE COMMENTS
- RACIAL STEERING
AND CONCENTRATED
ASSIGNMENTS**

According to the SFHA, the most serious implication in this finding is that SFHA "steered" residents to particular developments because of their race, by among other means, allowing project preference and not assigning Asian applicants outside of the Chinatown area. SFHA's review of 58 of the 71 applicants identified in the audit to be of "Asian surname" indicates that a total of 190 Eligibility referrals of housing have been made for these applicants through August 14, 1992. Ninety-eight percent of these referrals were to apartments outside of Chinatown, and 96 percent to apartments outside of Chinatown and North Beach. These 190 referrals led to 87 offers of housing, eight percent in Chinatown/North Beach and 92 percent in developments outside of Chinatown, mainly Hunter's Point and the Western Addition.

The SFHA stated that the issue raised by the auditors regarding concentrated assignments to certain developments fails to consider the main reason for this concentration--the California Three-Refusal rule. While the audit is correct that 93 percent and 83 percent of the applicants accepting housing at Yerba Buena Plaza East and Hayes Valley were African-American, it fails to take into consideration that the proportion of African-Americans referred to these units was actually much lower. Furthermore, applicants of all races were referred to these units.

OIG EVALUATION OF
AUDITEE COMMENTS
- RACIAL STEERING
AND CONCENTRATED
ASSIGNMENTS

We disagree. We found that SFHA did not refer certain ethnic groups to specific projects because it assumed that the applicants would not accept units in projects with a majority of tenants from other ethnic groups. Therefore, SFHA did not give the applicants a chance to refuse units in other projects. This practice resulted in ethnic concentration at four SFHA projects.

AUDITEE COMMENTS
- "AS-IS APARTMENTS

The SFHA no longer has a policy of leasing units "as-is" and has ceased the practice. The audit claims that SFHA is continuing to lease "as-is" units (those not yet ready for occupancy) by noticing the term "as-is" on lease or credit slip documents. The auditors found only 13 instances in which the term "as-is" was used in documentation. This is out of 276 leases concluded during the period and based upon our review of the credit slips, the term "as-is" was inappropriately used."

OIG EVALUATION OF
AUDITEE COMMENTS
- "AS-IS"
APARTMENTS

We disagree. At the time of our audit, SFHA had not discontinued the practice of leasing units "as-is". We identified 17 applicants who accepted "as is" units, and received rent credits between May and August 1991. Moreover, our review of rent adjustments found that SFHA was giving tenants credit for accepting "as-is" units that still required complete trash removal, cleaning, painting and other maintenance repairs.

AUDITEE COMMENTS
- SINGLE NON-
ELDERLY
APPLICANTS

The auditors have erroneously stated not only SFHA's practice on housing non-elderly single applicants, but also HUD regulations regarding assignment of this type of applicant. Further, HUD has proposed eliminating rules precluding the housing of certain non-elderly singles. The auditors have also significantly overstated the rent balances of their cited cases by including balances which were not yet overdue. The auditors have based their conclusion on an incomplete reading of the HUD definition of "displaced" non-elderly single person. The auditors have not recognized a Congressional Statue as overriding an outdated HUD regulation on the admission of non-elderly singles.

**OIG EVALUATION OF
AUDITEE COMMENTS
- SINGLE NON-
ELDERLY
APPLICANTS**

We disagree. The SFHA apparently used regulations at 24 CFR 960.211 as the source for its definition of displaced. This definition relates to eligible families who are seeking to qualify for Federal Preference. The appropriate definition of displaced for eligibility purposes is 24 CFR Part 912.2. Moreover, our reported rent balances for the ineligible applicants were from SFHA's own books and records as of May 1, 1992.

HUD has not completed the revision to its regulations necessary to implement the Congressional Statute the SFHA cited.

**AUDITEE COMMENTS
- SOCIAL SERVICE
REFERRALS**

Since the waiting list for all bedroom sizes has not been officially opened since 1988 (in 1988, it was opened for selected bedroom sizes), the SFHA's Eligibility Department continues to receive referrals of families from direct service providers with proof of displacement or qualification for a Federal Preference. The nature of these emergencies, including homelessness and danger of domestic abuse or other violence, indicates that due to their Federal Preference, these applicants would not have remained on the list for a long period of time. It is unlikely that these emergency needs would have come to our attention without the assistance of these agencies and property managers who speak with potential applicants in the neighborhoods of San Francisco.

**OIG EVALUATION OF
AUDITEE COMMENTS
- SOCIAL SERVICE
REFERRALS**

We disagree. We found that SFHA placed the referred applicants before housing the applicants on the waiting list who had Federal Preference. The SFHA did not use its waiting list to place applicants into units, which is contrary to HUD regulations and the ACC.

**AUDITEE COMMENTS
- WAITING LIST VS.
TRANSFERS**

The issue of waiting list vs. transfer applicants is largely a decision between two compelling but competing needs. While a number of existing residents are overcrowded and in need of transfer, emergency applicants are often living in shelters or on the street. Our choice in this area becomes whether to address comfort (overcrowding) or emergency need (homeless, domestic violence).

OIG EVALUATION OF
AUDITEE COMMENTS
- WAITING LIST VS.
TRANSFERS

The applicants discussed in SFHA's response were not on the waiting list, since the waiting list has been closed since 1988. Most of these applicants had applications dated after 1988. At the time SFHA housed the emergency applicants, it could not even place all of its priority transfers who were living in adverse health and safety conditions.

AUDITEE COMMENTS
- INITIAL
OCCUPANCY

The audit fails to mention that all under-housed residents were properly housed when they first took occupancy.

OIG EVALUATION OF
AUDITEE COMMENTS
- INITIAL
OCCUPANCY

The HUD Handbook clearly indicates that HUD provides only guidelines in the area of bedroom size assignment. However, rather than interpreting the intent of this regulation, the auditors have attempted to tie the SFHA to Section 8 regulations (24 CFR, Part 882, Section 109(c)), which do not apply to the HUD conventional public housing program.

We disagree. During our review, we found that SFHA placed some applicants into units which were smaller than required for the family size and which immediately resulted in underhousing. SFHA allowed these applicants to sign acceptance statements stating: "I, (name) do agree to accept a (bedroom size) unit knowing fully that I have agreed to be underhoused for a period of at least one year after which I may request a transfer from the project office."

The number of over/under housed used was from SFHA's computer list which used this occupancy standards.

AUDITEE COMMENTS
- PRIORITY
TRANSFERS

The Finding is incorrect in reporting that 12 families were left off the Priority Transfer List. Six of these residents were on the Priority List and had been removed after refusing an offer of a Priority Transfer. One more vacated and was removed from the list. Five families were inadvertently left off the list but have since been added.

OIG EVALUATION OF
AUDITEE COMMENTS
- PRIORITY
TRANSFERS

The SFHA did not provide any documentation to support the information cited above. During the time of our review, SFHA's files did not contain any documentation indicating residents had been removed from the list or vacated their units. We found, as stated in the Finding, that 12 families were left off the list.

**AUDITEE COMMENTS
- RENT COLLECTION
PROCEDURES**

The SFHA collects 98 percent of rent billed every month. The SFHA complies with its rent collection policy and has implemented appropriate procedures to increase collection of current billings and reduce tenant accounts receivables.

**OIG EVALUATION OF
AUDITEE COMMENTS
- RENT COLLECTION
PROCEDURES**

We disagree. The SFHA did not always enforce its rent collection procedures. The documentation the SFHA submitted in support of its statements were actions or balances that were subsequent to our audit period. The reduction in Tenant Accounts Receivables was largely attributable to the SFHA's reducing account balances by crediting accounts for utility costs and applying tenant escrow amounts.

**AUDITEE COMMENTS
- TENANT CAUSED
DAMAGES**

The auditors incorrectly concluded that the SFHA does not charge residents for repair costs attributable to damages caused by the residents or their guests. The methodology used to reach this conclusion was faulty, and did not include a review of tenant accounting records.

**OIG EVALUATION OF
AUDITEE COMMENTS
- TENANT CAUSED
DAMAGES**

At the time of our review, the SFHA did not have a system to charge residents for day-to-day damages caused by the residents or their guests. Rather, SFHA assessed residents for damages identified during the normal move out inspection when the resident vacated the unit.

**AUDITEE COMMENTS
- EXCESS UTILITY
USAGE**

The auditors note that the SFHA does not utilize checkmeters to bill tenants for excess utility charges. The use of checkmeters has not proven to be cost-effective in developments owned by the SFHA. This is the result of a number of factors.

**OIG EVALUATION OF
AUDITEE COMMENTS
- EXCESS UTILITY
USAGE**

The SFHA's comments support our finding that SFHA did not charge the residents for excess utility consumption, as required.

**AUDITEE COMMENTS
- RENT LATE
PAYMENT CHARGES**

The auditors note that the SFHA does not impose late charges for rent payment after the 10th day of the month. As explained to the auditors, rent payments are posted to the tenants' accounts at the time the computer program is

**OIG EVALUATION OF
AUDITEE COMMENTS
- RENT LATE
PAYMENT CHARGES**

run, not at the time the payment is received. The auditors have provided no support for their contention that imposing late charges (which would increase the balance owed by tenants) would reduce the amount of overdue rent owed by tenants.

The SFHA's Dwelling Lease requires that residents be assessed a \$10 late fee for rent payments submitted after the 10th day of the month. In not assuring residents' compliance with the Lease terms, SFHA is not actively encouraging its residents to pay their rents promptly. The SFHA should adjust its system to implement this requirement.

RECOMMENDATIONS

We recommend you require and ensure that:

- 5A. SFHA adopts and implements a tenant selection process that fully meets HUD's requirements.
- 5B. SFHA's implementation of the required tenant selection process within HUD's established timeframe is monitored closely.

We further recommend that you require SFHA to:

- 5C. Take prudent actions to transfer tenants to appropriate units.
- 5D. Provide quarterly reports to you showing their actual progress and accomplishments in completing all necessary transfers.
- 5E. Establish a monitoring system to ensure its policy of collecting rents and evicting delinquent tenants in a timely manner is enforced in a fair and equitable manner.
- 5F. Establish controls to ensure its staff complies with its collection procedures.
- 5G. Establish and implement a policy to garnish the wages/salaries or to evict SFHA employees who are delinquent in their rent payments.

- 5H. Collect all rent owed or begin action to evict the member of the Board of Commissioners who is delinquent in her rent.
- 5I. Work with the San Francisco Mayor's office in seeking to replace any member of the Board of Commissioners who is delinquent in SFHA rent payments.
- 5J. Implement existing procedures to charge tenants for repairs and damages attributable to their actions.
- 5L. Prepare, for your review and approval, a plan to replace all vandalized checkmeters.
- 5M. Implement procedures to assess late charges for tenants' untimely rent payments.

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THE SFHA'S PERSONNEL PRACTICES NEED TO BE IMPROVED

The SFHA's personnel practices need to be improved in three respects. First, SFHA had inadequate comparability data to support its administrative employees' salaries and fringe benefits and ensure comparability with salaries of similar employees in local public practice (e.g., City and County government employees). Second, SFHA's latest approved budget provided for about 70 full-time equivalent administrative employees in excess of the number needed to manage its conventional, low-income housing units, according to HUD guidelines. Third, SFHA paid its Board of Commissioners compensation for attending meetings without obtaining prior HUD approval, as required.

We attributed these deficiencies to SFHA's: (1) decisions to hire persons at salaries above the applicable minimum salary range; (2) faulty budgeting and cost allocation process (see also Finding 3); and (3) practice of benchmarking, or comparing, its positions with City and County positions where the job duties and supervisory responsibilities varied significantly. As a result of the deficiencies, SFHA cannot assure HUD that its administrative staff's positions and salaries are justified and supported. Moreover, SFHA may incur \$2.8 million annually in unjustified and unnecessary salary and fringe benefit costs for the 70 additional employees it plans to hire; paid Board members about \$8,400 in compensation without prior HUD approval; did not charge the Low-Rent program its fair share of operating expenses; and had more administrative employees per housing unit than the national average for large troubled PHAs.

**SFHA IS RESPONSIBLE
FOR ENSURING THAT
ITS PERSONNEL
PRACTICES ARE
ECONOMICAL,
EFFICIENT AND
REASONABLE**

Section 201, Part II, of SFHA's ACC with HUD states, in part, that PHAs are responsible for administering their operations in a manner to promote serviceability, efficiency, economy, and stability. Section 307 of the ACC and HUD Handbook 7401.7, The New Public Housing Agency (PHA) Personnel Policies Handbook, requires SFHA to maintain salary documentation to support the comparability of its employees salaries with those of employees in local public practice. The documentation must be complete, include all positions, identify the source of the support, and the basis or reasoning for establishing such comparability.

Once comparability is established, a new survey or study is required only for the establishment of a new position or realignment of either a PHA position or the position used

to establish comparability. Once established, PHA salaries shall be adjusted to reflect changes in local public salaries (e.g., cost of living increases).

HUD's review and approval of a PHA's comparability is not required. However, HUD retains the prerogative to disallow PHA salaries where the PHA has acted imprudently in light of the ACC requirements for an efficient and economical operation.

**SFHA DID NOT
JUSTIFY AND
ADEQUATELY
SUPPORT SALARY
COMPARABILITY FOR
ITS ADMINISTRATIVE
STAFF**

We reviewed SFHA's salary comparability to determine if the salaries and fringe benefits for administrative employees were consistent with those of local public practice and the amounts reported to HUD. We found that SFHA: (1) did not justify and support its administrative staff's salaries; (2) benchmarked³ its job positions to similar City and County positions even though the duties and supervisory responsibilities of these positions varied significantly; and (3) hired a consultant for work which appeared to overlap its staff's responsibilities.

As a result, we believe that SFHA's personnel practices do not ensure that: employees receive administrative salaries which are reasonable and comparable with similar City and County positions; personnel operations are efficient and economical; and consultants are hired only for work which does not duplicate or overlap the staff's responsibilities.

SFHA's administrative compensation structure was based primarily on recommendations provided in 1986 by Ralph Anderson and Associates and a 1987 study conducted by an analyst from the Civil Service Commission (CSC) of the City and County of San Francisco (CCSF). We reviewed documentation from the CSC study and found that SFHA failed to compare 9 and 13 positions to the jobs suggested by the CSC. Since 1987, SFHA's Personnel Department has determined salary comparability for new positions or job classifications.

Of SFHA's 109 administrative positions, we chose 10 positions for review. In performing our review, we recognized that determining salary comparability is not an

³Benchmarking, in this instance, is the comparing of the job duties and responsibilities of a job title to a position within the City and County of San Francisco in order to derive a comparable salary.

exact science and that PHAs have some flexibility in evaluating the similarities and differences between positions used to compare flexibility.

We found that SFHA could not provide adequate evidence that salaries were appropriate for 4 of the 10 positions and that the positions were comparable with those of local public practice.

Following are specific examples of the questionable positions and salaries our review identified:

- SFHA considers the position of its Director of Internal Audit, who has no supervisory responsibilities, comparable to CCSF's Chief Auditor, who supervises 20 people. Our review disclosed that the positions differed not only because of the supervisory responsibilities, but also as a result of the required level of experience. For example, the Chief Auditor's position required 8 years of progressively responsible accounting or auditing experience, while the Director of Internal Audit's position required only 5 years of such experience. We also noted that SFHA's current Director of Internal Audit had no auditing experience when hired.
- In 1989, SFHA stated that its Director of Resident Services position was comparable to CCSF's Senior Community Development Specialist I position. We noted, however, that SFHA has reclassified the former position at least twice without providing support documentation or justification.
- SFHA determined that its Rent Collections Manager position was comparable to CCSF's Principal Investigator position in the Tax Collection Department. However, SFHA had no available supporting documentation comparing the duties and responsibilities of these two positions.

SFHA's records showed that it benchmarked, or compared its job positions with some City and County positions where the job responsibilities varied significantly. We found that SFHA could have used more appropriate benchmarks but did not do so. For instance, SFHA could

Finding 6

and should have compared its Affirmative Action Officer position to CCSF's Associate Affirmative Action Coordinator and its Materials Manager position to CCSF's Materials Coordinator position. Instead, SFHA determined that these two positions and six other supervisory positions were comparable to CCSF's Management Information Systems Manager. The Management Information Systems Manager is in charge of coordinating computer information systems and internal training for the City and County, while the eight SFHA positions involved varying job duties and supervisory responsibilities, as shown below:

<u>SFHA Positions Benchmarked With CCSF's Management Information Systems Manager</u>	<u>Employees Supervised</u>
Director of Public Affairs	0
Assistant Director of Conventional Housing	47
Assistant Director of Subsidized Housing	22
General Maintenance Supervisor	33
Materials Manager	12
Controller	18
Affirmative Action Officer	0
Construction Manager	5

Another example of SFHA's inappropriate benchmarking involved comparing three division directors with divergent responsibilities and duties to CCSF's Hospital Assistant Administrator, as shown below:

<u>SFHA Positions Benchmarked with CCSF's Hospital Assistant Administrator</u>	<u>Employees Supervised</u>
Director of Planning & Design	10
Director of Maintenance	222
Director of Personnel Services	4

SFHA could not provide any documentation justifying and supporting its basis for comparing the three Directors' positions to CCSF's Hospital Assistant Administrator position. Again, SFHA should have used more appropriate comparisons for these positions.

Although SFHA has a Principal Administrative Planner on its staff, it hired a consultant to serve as a second Principal Administrative Planner on an as-needed basis. According to the Director of Planning and Design, the consultant has a one-year term employee service contract to work 12 to 16

hours a week. The consultant's only task is to work on rehabilitation options for the North Beach development. SFHA used the staff Administrator Planner's annual salary to determine the consultant's hourly rate. In our opinion, the consultant's hourly rate is not reasonable since the degree of his responsibilities and duties are not comparable with those of the full-time Administrative Planner, whose work involved all aspects of SFHA's management, procedures and operations.

Although, HUD regulations and SFHA policy state that all administrative staff salaries should be comparable to salaries paid in local public practice, SFHA routinely hired new administrative people at salaries above step 1 on its salary scale. We reviewed the salaries of 14 officials and administrative personnel hired between October 1, 1990 and June 30, 1992, and found that 10 were hired at step 4 or higher. We found that the Executive Director's discretion was usually the basis for hiring above step 1. SFHA, in carrying out this hiring practice, appeared to have disregarded its own policy and paid excessive salary costs.

According to SFHA's policy, the Human Resources Unit's Employment Specialist and the appropriate supervisor are responsible for determining new employees' starting salaries, based on the following salary ranges:

- a. Minimum. The salary range minimum reflects an entry level salary position for an employee learning a new set of job skills, and who meets the position's minimum requirements.
- b. Midpoint. The salary range midpoint reflects a competitive market position for an employee functioning at a fully proficient level for all requirements of the position.
- c. Maximum. The salary range maximum reflects the upper limit of earnings potential for an employee consistently exceeding job standards.

Since neither the Employment Specialist nor the appropriate supervisor had the opportunity to assess the new employees' proficiency at their new positions, we believe

SFHA lacks an adequate basis for hiring at the midpoint and maximum salary ranges.

We also found that, in June 1991, the Executive Director decided that senior staff members who report directly to him should have salaries that are comparable to each other. Accordingly, the Director of Internal Audit's monthly salary was increased from about \$4,322 to about \$4,776, or by \$444 a month (adjusted from step 1 to 3), and the Director of Resident Services' monthly salary was increased from about \$3,866 to about \$5,042, or by \$1,176 a month. SFHA considered these significant salary increases to be "equity pay raises" because the Executive Director felt that it would be "fairer" for his senior staff to have comparable salaries, regardless of HUD's salary comparability requirements.

In our opinion, SFHA's haphazard method of determining its administrative staff's salary comparability and the decisions to disregard appropriate pay scales for certain employees are contrary to HUD requirements and SFHA's own policies. As a result, SFHA incurred excessive and unnecessary salary costs.

SFHA'S BUDGETED ADMINISTRATIVE STAFF EXCEEDED HUD'S GUIDELINES

Applying HUD's staffing guidelines, we determined that SFHA's latest approved budget provided for a total of 70 full-time equivalent administrative employees in excess of the number of employees needed to manage its 6,689 conventional low-income housing units. If the additional 70 budgeted employees are hired, we estimate that the SFHA will incur \$2,835,140 annually in unjustified salary and fringe benefit costs. SFHA's staff attributed the need for additional budgeted staff to SFHA's decision to decentralize its operations. SFHA, however, did not have sufficient documentation to support the need for the positions. Further, SFHA was able to budget the 70 positions, in our opinion, because it did not charge the Low-Rent Program its a fair share of operating expenses (see Finding 3).

HUD Handbook 7460.7 REV-1, The Field Office Monitoring of Public Housing Agencies, Paragraph 2-3, provides guidance on evaluating PHA staffing levels. HUD's indicator for large housing agencies regarding staff size is one administrative employee for every sixty-five units, or a ratio of 1:65. According the Appendix 1 of this

Handbook, the ratio of Full-Time Equivalent (FTE) employees to units is derived by obtaining the total number of FTE employees (e.g., two persons working half-days are considered as one FTE) whose salaries are charged to the PHA Operating Budget (Form HUD-52566, Schedule of All Positions and Salaries), and dividing that number into the total number of PHA-owned units.

SFHA's fiscal year 1992 Operating Budget included funding for 173 FTE administrative positions for the Low-Rent program. According to HUD's staffing guidelines, SFHA budgeted 70 more FTE staff positions than needed to manage its 6,689 Low-Rent units as shown below:

<u>Full-Time Equivalent Employees</u>			
<u>Position</u>	<u>SFHA Budgeted</u>	<u>HUD Guidelines</u>	<u>Number of Excessive Employees</u>
Administration	173	103	70

The 70 budgeted positions not only resulted in more employees per unit than HUD guidelines indicate are necessary, but also SFHA had more administrative employees per unit than the national average for other large troubled housing agencies (i.e., PHAs having over 1,249 low-rent units). Following is a comparison of SFHA's ratio of employees per unit with HUD's guidelines and the national average for large troubled PHAs:

Ratio of Employees to Units

<u>Position</u>	<u>SFHA Budgeted</u>	<u>National Average for HUD Guidelines</u>	<u>Large Troubled PHAs</u>
Administration	1:38.6	1:65	1:52.3

SFHA's ratio of administrative employees per unit has been less than HUD's guidelines since at least fiscal year 1989, as shown below:

Finding 6

<u>Ratio of Employees to Units</u>					HUD
<u>Position</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>Guidelines</u> <u>1989-1992</u>
Administration	1:43.9	1:39.2	1:40.9	1:38.6	1:65

In our opinion, SFHA cannot adequately justify the need for the 70 additional positions. SFHA was able to include the positions in its fiscal year 1992 operating budget because of a faulty budgeting process. As discussed in Finding 6, SFHA allocated salary and benefit costs to its various programs by predetermined percentages, rather than verifiable documentation. SFHA, in our opinion, improperly shifted salary and fringe benefit costs applicable to the Low-Rent Program, to the Section 8 and Comprehensive Improvement Assistance Programs. If SFHA had properly allocated these costs to the respective programs, we believe there would have been insufficient Low-Rent funds to support most, if not all, of the 70 budgeted positions.

SFHA PAID ITS BOARD OF COMMISSIONERS COMPENSATION WITHOUT HUD APPROVAL

From October 1, 1990 to June 5, 1992, SFHA paid members of its Board of Commissioners \$8,400 to attend board meetings. Specifically, each member received a \$50 fee for each meeting attended. We found no evidence that HUD had approved these payments. We consider the payments an ineligible use of SFHA's operating funds, since the ACC and HUD Handbook requirements prohibit any compensation for the services of Board members without HUD's approval. Consequently, we believe SFHA should reimburse its operating funds for the apparently ineligible payments if HUD does not approve such payments.

AUDITEE COMMENTS

(Note: The auditee comments referred to in this section and the following section are those provided to us by the SFHA on August 25, 1992. The SFHA subsequently provided a summary of its comments and a revised version of its complete comments on our draft report on September 3, 1992; however, the September 3 comments are not significantly different from the SFHA's August 25 comments. We have included only the SFHA's September 3 response in our report -- see Appendices H and I.)

In a memorandum dated August 25, 1992, the SFHA's Executive Director commented on our draft audit Finding and Recommendations. The SFHA generally disagreed with the Finding and Recommendations. The SFHA acknowledged that it has not maintained complete documentation regarding the comparability of some of its job classifications with classifications established by the City and County of San Francisco. The SFHA stated that it has already taken steps toward conducting a complete review of its classification and compensation structure during the upcoming fiscal year.

The SFHA stated that the Unit Manager is the job classification used as an internal benchmark for most SFHA department heads and staff who have similar levels of responsibility, skill, and professional qualifications. The SFHA stated that this approach has been utilized to limit discrepancies in salary among the SFHA's "middle management" staff. The SFHA stated that, while the auditors note that there are differences among these positions in terms of the number of employees supervised, this is only one of the factors used to determine comparability.

**AUDITEE COMMENTS
- HIRING PRACTICES**

The SFHA disagreed with our determination that a "consultant" was hired for work which overlapped staff responsibilities. The SFHA stated that the fact that the temporary, part-time employee was hired in the same job classification as another employee does not mean that their responsibilities overlap.

Regarding the SFHA's practice of hiring some employees at a salary level above step 1, SFHA stated that, in general, employees are hired above step 1 when the higher salary is justified by the employee's prior compensation, or when required to recruit qualified employees to fill a position.

**AUDITEE COMMENTS
- EXCESS
ADMINISTRATIVE
STAFF**

The SFHA stated HUD sets no standards for ratios of administrative employees to units. The SFHA believes that its ratios are appropriate for local needs and conditions.

AUDITEE COMMENTS - BOARD OF COMMISSIONERS

The SFHA maintains that the payments to members of the Board of Commissioners are allowable under California State Law and HUD requirements.

OIG EVALUATION OF AUDITEE COMMENTS - SALARY COMPARABILITY

We consider the SFHA's comments on its lack of complete documentation supporting salary comparability responsive to our Finding and related Recommendations.

We do not agree with the SFHA's comments on its benchmarking practice. Our finding on benchmarking was based on a review of the "Unit Manager's" skill, responsibility and professional qualifications as well as the number of persons supervised. In our opinion, the nine Unit Manager positions identified in our report require substantially different skills, education and responsibilities. Therefore, they should not be evaluated as a group.

OIG EVALUATION OF AUDITEE COMMENTS - HIRING PRACTICES

We do not agree with the SFHA's justification for the consultant's services and salary. The part-time consultant's job description, responsibilities and justification for the position were similar to those of the full-time Administrative Planner. Since the scope of the consultant's services was limited to one activity, the SFHA should have given this factor due consideration in its comparability analysis and setting of salary for the consultant.

We continue to believe that the SFHA's practice of hiring above the minimum salary range is contrary to the policies and procedures adopted by the SFHA's Board of Commissioners. We believe that any exceptions should be justified in writing.

OIG EVALUATION OF AUDITEE COMMENTS - EXCESSIVE ADMINISTRATIVE STAFF

We do not agree with the SFHA's comments on the 70 additional administrative employees. The SFHA should provide sufficient documentation to support the need for administrative staff in excess of HUD's guidelines.

**OIG EVALUATION OF
AUDITEE COMMENTS
- BOARD OF
COMMISSIONERS****RECOMMENDATIONS**

We agree that State Law provides for payments to the Board of Commissioners. However, HUD approval must be obtained before the payments are allowable.

We recommend that you require SFHA to:

- 6A. Perform a salary comparability analysis of all its administrative positions and provide a written report for your review and approval.
- 6B. Ensure that its administrative positions are benchmarked to City and county positions with similar job duties and supervisory responsibilities, as part of the analysis mentioned in Recommendation 6A.
- 6C. Make appropriate salary adjustments based on the approved analysis.
- 6D. Submit a detailed assessment of its staffing needs.
- 6E. Comply with its policies and procedures regarding starting salary levels for new employees and submit written justifications for the Board's approval before hiring at levels above the minimum salary range.
- 6F. Submit evidence that it has sufficient Low-Rent funds to pay salary and fringe benefit costs, based on a proper cost allocation plan.
- 6G. Submit for HUD's review and approval documented justification for its policy of paying members of the Board of Commissioners to attend meetings.
- 6H. Reimburse the operating account from non-Federal funds the \$8,400 in payments to Board members, and any similar costs paid since June 5, 1992, if HUD does not approve the justification for such payments.

Finding 6

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THE SFHA DID NOT FOLLOW SOME REQUIRED PROCUREMENT PRACTICES

The SFHA's procurement practices did not always comply with its own procurement policy and HUD regulations. Specifically, SFHA: (1) lacked adequate internal controls over contract administration; (2) did not maintain proper supporting documentation for quotes on small purchases and sole source procurements; and (3) did not maintain a complete or current contract log. A January 1989 HUD Coordinated Management Review identified similar deficiencies in SFHA's procurement activities and SFHA promised to implement corrective actions. We attributed the continuing deficiencies primarily to the staff's disregard of established procurement policies and procedures and SFHA's ineffective internal control system. As a result, the SFHA may have incurred excessive costs.

HUD REQUIRES PHAs TO DEVELOP PROCUREMENT POLICIES WHICH CONFORM TO FEDERAL REGULATIONS

HUD regulations at 24 CFR 85.36 set forth basic requirements to be used by PHAs in purchasing goods and services and monitoring contractor performance. HUD Handbooks 7460.8, Procurement for Public Housing Agencies and HM 7510.1, Low-Rent Housing According provide additional guidance. In this regard, SFHA has developed its own procurement policy which is intended to be in conformance with the Federal regulations and HUD requirements.

SFHA's procurement policy states that the Materials Manager and Materials Management Unit (MMU) staff are responsible for monitoring SFHA's procurement practices. In actual practice, SFHA had decentralized its contract administration by assigning contract monitors to oversee service-type contracts. The monitors were usually the individuals most involved in selecting and monitoring the contractors. For example, the Legal Counsel monitored the legal consultants and the Assistant Director of Conventional Housing monitored the pest control appliance repair contractors. As a result, MMU did not monitor all contracts, as required.

SFHA's Deputy Executive Director for Administration and Finance stated that it was more economical and efficient to

use contract monitors because they are the individuals involved with the specific service. The Deputy Executive Director also thought that the Finance Department's fiscal budget review process provided oversight of the contract monitors' activities.

Our review disclosed several deficiencies which we attribute to SFHA's practice of using contract monitors. Following are specific examples of the deficiencies:

- In June 1991, SFHA selected a security company to provide services at the SFHA's Eligibility Office. SFHA paid for these services without any written agreement since SFHA did not finalize and execute the contract until September 1991. In our opinion, it is poor business practice to pay and permit a contractor to provide services without an executed contract. The Eligibility Office Manager was the contract monitor for this contractor, not the Materials Manager.
- SFHA awarded a contract to the American Appliance Repair Company to supply repair services for major appliances. The Assistant Director of Conventional Housing was the contract monitor. We found that SFHA paid duplicate invoices, totaling \$341 due to ineffective oversight of the contract. In this case, the Finance Department's budget review process did not provide the oversight of contract monitors' activities that the Deputy Executive Director thought was being provided.
- On October 21, 1991, SFHA's Legal Counsel, who also served as a contract monitor, solicited proposals for legal services contracts from two firms. Subsequently, SFHA selected a law firm to handle its defense in two legal actions involving alleged personal injury from exposure to asbestos. SFHA selected the firm based on bids received from the only two law firms solicited and advice from the San Francisco City Attorney's office and the State of California Attorney General's Office via telephone conversations. We found no responses to the solicitation or documentation showing when a firm was selected. Further, the Legal Counsel did not

inform MMU of the circumstances regarding the selection process until March 12, 1992, about four months after the services had already been rendered.

In addition to the internal control weaknesses in the use of contract monitors, MMU's own contract administration activities also had weaknesses as shown in the following two examples.

- In September 1991, MMU awarded a contract to a "standby" asbestos consultant, but subsequently changed its selection to another consultant due to faulty contract evaluation work. A Management Assistant in Planning and Design found that MMU's initial evaluation of three contractors did not include an evaluation of response time. The Management Assistant, who was also the contract monitor, performed an analysis - which indicated that another consultant should have been selected. Based on this evaluation, MMU awarded the contract to another consultant. In our opinion, MMU's decision to change contractors should not have been based solely on an analysis made by a Management Assistant, who was also the contract monitor.
- In May 1992, MMU negotiated an open purchase order with Sam's Appliance Service Company, rather than executing a contract, because it was the only company to submit a response of the 34 who were sent Request for Proposals. At least two other contractors were interested in a contract; however, they were unable to submit a bid in time. Subsequently, MMU negotiated an open purchase order with T&L Refrigeration, a firm that had provided service to SFHA in the past, because it believed that Sam's Appliance lacked sufficient resources to provide services to accomplish SFHA's needs. In our opinion, SFHA should not have negotiated an open purchase order with a contractor when there were no other bids. Further, MMU should have sent out Request for Proposals instead of negotiating with T & L Refrigeration.

**SFHA DID NOT
PROPERLY
DOCUMENT PRICE
QUOTES OR BIDS**

We reviewed 22 purchase orders issued by SFHA and found that 12 (55 percent) did not have the required supporting documentation indicating that three bid quotations had been obtained. For example:

- Computers were purchased with only one written proposal. The other documentation consisted of pages from mail order catalogs.
- Building materials were purchased based on two partial proposals and one apparently completed proposal which was subsequently revised by SFHA staff.

HUD Handbook 7460.8, Chapter 5, states that PHAs should record all oral or telephone bids on the file copy of the purchase order or some other form designated for that purchase.

In addition, the SFHA's own procurement policy states:

"For purchases and contracts from \$2,000 to \$10,000, the Materials Manager, or designee, will solicit cost quotations either in person, by telephone or in writing from at least three suppliers. These quotations must be documented on a bid tabulation form as a permanent record for the procurement file. Bids received by phone or orally should be followed by a letter or other standard form document confirming the price quoted."

We found that a January 1989 HUD Coordinated Management Review cited SFHA for not documenting price quotes or bids, as required. HUD closed the finding based on SFHA's assurance that, as a standard procedure, MMU had used a Bid Tabulation Form or Requisition Valuation Worksheet since 1981. The three examples in the table below demonstrate that SFHA does not always ensure that issued purchase orders have supporting documentation and that all purchases are made in accordance with its own policy and HUD regulations.

Purchase Order Number	Date	Vendor	Amount	Discrepancy
22259	01/31/92	IDS	\$2,413.54	No Bid Info.
22186	01/27/92	LMF	\$5,000.00	No Bid Info.
21971	01/02/91	VG	\$3,104.61	Only 1 Quote

SFHA DID NOT DOCUMENT ITS SOLE SOURCE CONTRACTS

We reviewed SFHA's use of sole source contractors and determined that SFHA did not document and could not identify all awarded contracts involving sole source suppliers. For the sole source suppliers it was able to identify, SFHA did not maintain justification as to why the sole source procurement was necessary.

According to HUD Handbook 7460.8, paragraph 5-16, PHAs may use sole source contracts when their needs can be satisfied only by items or services which are unique, there are emergency situations, data is unavailable for competitive procurement, or the desired item is manufactured by one source and must be compatible and interchangeable with existing equipment. PHAs must fully justify their reasons for using sole source contracts.

We found that HUD's 1989 Coordinated Management Review cited SFHA for failing to justify its sole source contract awards. SFHA disagreed with HUD's finding and responded that it had documented all justifications for sole source awards.

Our review results demonstrates that SFHA lacks effective internal controls over its sole source contracts. This deficiency may have resulted in SFHA not obtaining the best prices possible.

SFHA disagreed with our draft finding regarding its sole source contracting and provided additional information on its contracting activities. SFHA stated that we did not identify any cases in which its sole source procurement was conducted without justification.

We did not cite any specific examples of sole source deficiencies because the SFHA did not have a system for readily identifying its sole source contracts.

We reviewed the additional documentation SFHA submitted on its sole source contracts. Some of these documents related to Purchase Order Number 22259, which is listed in the table above. This documentation raises a question as to whether a sole source contract was warranted. For example, SFHA's justification for a sole source contract (Purchase Order No. 22259) for a Shower Stem Assembly indicated that the product had not been manufactured since March 1988 and that one company would specially produce the item for SFHA. Attached to this document, however, were unconfirmed quotes from two other firms for the same item.

**SFHA LACKED A
CURRENT AND
COMPLETE
CONTRACT
PURCHASE LOG**

We reviewed SFHA's Purchasing Contract Log Sheet for Fiscal Years 1991-1992 and found that the log did not include all contracts in force, only those signed during fiscal year 1992, and MMU, which is responsible for contract administration, did not maintain an official log. Instead, MMU depended on the Finance Department to maintain a current log.

The log maintained by the Finance Department did not meet requirements of HUD Handbook HM 7510.1, Low Rent Housing Accounting Handbook, Chapter 4, paragraph 9. According to the Handbook, PHA's are required to maintain a contract register to record the amount of each formally executed contract and all subsequent financial transactions relating to the contract. Since SFHA's log did not include any financial transactions, it could not be used to prevent duplicate payments, provide administrative controls over purchase orders or contracts, or provide an audit trail for tracking all procurement actions.

HUD's 1989 Coordinated Management Review cited SFHA for not maintaining a contract or purchase log in any of its contracting activities to record or track all purchases made. As stated in HUD's review:

"Logs should be maintained for all purchase orders and contracts. A log is a complete record of all purchase or contract actions;

procurement logs are established to provide administrative control over all purchase orders and contracts issued."

SFHA, in replying to HUD's review, stated:

"These logs are available for the Department of Housing and Urban Development to review at their convenience. A contract log was initiated at the urging of the HUD auditors. The Authority considers the maintenance of such logs necessary for the proper management of its procurement and contracting functions. Therefore, we not only agree, but insist that such logs be utilized for all purchases and contracts."

In view of the findings, SFHA needs to assure that it is in compliance with the policy cited in its response to HUD's review.

AUDITEE COMMENTS - ON PROCUREMENT

(Note: The auditee comments referred to in this section and the following section are those provided to us by the SFHA on August 25, 1992. The SFHA subsequently provided a summary of its comments and a revised version of its complete comments on our draft report on September 3, 1992; however, the September 3 comments are not significantly different from the SFHA's August 25 comments. We have included only the SFHA's September 3 response in our report -- see Appendices H and I.)

The SFHA generally disagreed with our Finding and Recommendations. The SFHA stated that it conducts its procurement program in full compliance with laws, regulations, and required practices.

AUDITEE COMMENTS - CONTRACT MONITORS

The SFHA stated that audit finding reflects a serious misunderstanding regarding the role of contract monitors. According to the SFHA, a contract monitor generally assists the Materials Management Unit (MMU) in developing a Request for Proposals (RFP) and soliciting and evaluating bids. The SFHA stated that in some cases where the contracted services are highly specialized, the contract monitor will play a primary role in soliciting and evaluating bids. However, the execution of a contract and

approval of payments remains under the control of the MMU and the Finance Department. According to the SFHA, all purchase requisitions for contract services are approved by the SFHA's Finance Department, and all Purchase Orders are created by the MMU.

**AUDITEE COMMENTS
- SOLE SOURCE
CONTRACTORS**

The SFHA further stated that it is required to maintain a list of sole source suppliers and that we did not cite any cases when sole source procurement was unjustified.

**AUDITEE COMMENTS
- CONTRACT
PURCHASE LOG**

The SFHA also stated that, contrary to our findings, the Finance Department did maintain a current and accurate Contract Purchase Log.

**OIG Evaluation Of
Auditee Comments -
Contract Monitors**

The auditee's comments address the problems we found with its procurement practices for personal services, equipment and materials. The conditions we found and information the SFHA provided in response to the finding shows that contract monitors took the lead in procurement activities with the MMU and the Finance Department providing support. As we stated in the finding the SFHA:

- Paid for security services without any written agreement describing the scope of services.
- Legal Counsel, the contract monitor for legal services, solicited proposals for legal services on October 24, 1991. However, there were no responses to the solicitation or documentation that showed when a firm was selected. Further, Legal Counsel did not inform MMU of the circumstances regarding the selection process until March 12, 1992; after the services had already been rendered.

Another example as to what extent contract monitors control procurement activities was the asbestos consultant. As we stated in the finding a contract was awarded for a standby asbestos consultant based on bids. A management assistant in the Planning and Design Department found that the scope of services did not include contractor response time. SFHA officials stated the Materials Manager and the contract monitor reevaluated the proposals and awarded the contract to a different company.

The documentation the SFHA provided showed the Management Assistant alone made the decision to change contractors based on telephone solicitations of response times. Since the response time was a critical element for contractor selection the SFHA should have conveyed this to the firms, in writing.

Similar procurement deficiencies were noted for the 12 purchase orders we identified. For example:

- Computers were purchased with only one written proposal. The other documentation consisted of pages from mail order catalogs.
- Building materials were purchased based on two partial proposals and one apparently completed and subsequently revised by SFHA staff.

OIG EVALUATION OF
AUDITEE COMMENTS
- SOLE SOURCE
CONTRACTORS

We did not cite any examples of sole source contracting deficiencies because the SFHA did not have a system to readily identify these contracts or firms. In responding to the finding, however, the SFHA did produce information for sole source activities. Support for Purchase Order 22259 indicated that part SP 86-S, Shower Stem Assembly, had not been manufactured since March 1988 and cited one company that would reproduce the item under special production. Attached to this document, however, were unsubstantiated quotes from two firms for this item.

OIG EVALUATION OF
AUDITEE COMMENTS
- CONTRACT
PURCHASE LOG

SFHA officials contended that the Finance Department did maintain the required log. To support their position they provided copies of logs from the Planning and Design Department. Those documents were not acceptable as evidence that the Finance Department maintained the required log.

RECOMMENDATIONS

We recommend that you:

- 7A. Establish an effective system of internal controls over contract administration.
- 7B. Reassess the practice of using contract monitors in overseeing contracts where they are closely involved in the selection process or service area.
- 7C. Prepare written justifications when contractors' services are obtained prior to formal contract selection and award.
- 7D. Obtain three bids for all purchases, as required.
- 7E. Maintain a list of sole source contractors and written justifications for all sole source procurements.
- 7F. Ensure that MMU maintains a list of all contracts in force.
- 7G. Ensure that the Finance Department maintains a contract log which includes all required data.

Internal Controls

In planning and performing our audit, we considered internal controls of the SFHA to determine auditing procedures, not to provide assurance on internal controls. Internal controls consist of a plan of organization and methods and procedures adopted by management to ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

We identified and evaluated internal controls in the following areas that were relevant to our audit objectives:

- Cash Management
- Housing Quality Standards
- Maintenance
- Utility Usage
- Operating Subsidy and Expenses
- Admissions and Occupancy
- Tenant Accounts Receivable
- Accounting and Cost Allocation
- Procurement and Contracting
- Commissioners and General Administration
- Insurance and Bonding
- Salary Comparability
- Travel
- PHMAP

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, the SFHA's internal controls for insurance and bonding and travel were adequate. The lack of adequate internal controls in other areas is described in the following findings:

CONTROL WEAKNESS AREA FINDING

• Cash	3
• Housing Quality Standards	2
• Maintenance	2
• Utility Usage	5
• Operating Expenses	4
• Admissions and Occupancy	5
• Tenant Accounts Receivable	2 and 5
• Accounting and Cost Allocation	3
• Procurement and Contracting	7
• Commissioners and General Administration	6
• Salary Comparability/ Fringe Benefits	6
• PHMAP	1

Follow Up On Prior Audits

The Office of Inspector General audit report number 84-SF-201-1019, dated June 24, 1984, of selected operations in SFHA's Low-Income Housing for the period October 1, 1982 through September 30, 1983, identified 9 findings with 32 recommendations. The Independent Audit report completed by Kenneth Levanthal and Company (audit report number 91-NR-201-3139, dated August 12, 1991) for the fiscal year ended September 30, 1989, contained 4 findings and 37 recommendations. Even though the findings were cleared, we found that weaknesses continued to exist as disclosed below.

<u>OIG Audit Report 94-SF-201-1019</u>	<u>Repeat Finding From Current OIG Report</u>
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Finding 2 - Excessive Maintenance Costs:

2b Inefficient use of skilled craftsmen	Finding 2
-----------------------------------------	-----------

Finding 4 - Lengthy use of skilled craftsmen	Finding 5
----------------------------------------------	-----------

Finding 6 - Need for Improvement in Tenant Management

6a Rent payments received late	Finding 5
--------------------------------	-----------

6b Inefficient eviction procedures	Finding 5
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Finding 9 - Additional Items Requiring Management Attention

9b Inadequate maintenance charges	Finding 5
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9d Inequitable distribution of salary costs	Finding 3
---------------------------------------------	-----------

Financial Audit Report 91-NR-201-3139

Finding 1 - Internal controls and cash management weaknesses

1A The HA prepare monthly account analysis and adjusting journal entries prior to closing of the general ledger.	Finding 3
------------------------------------------------------------------------------------------------------------------	-----------

1F The HA implement procedures to assure that all bank accounts are reconciled each month.	Finding 3
--------------------------------------------------------------------------------------------	-----------

1K The HA analyze receivable accounts every month. Finding 3

1S The HA document all small purchases in accordance with HUD requirements. Finding 7

Finding 2 - General Compliance Violations

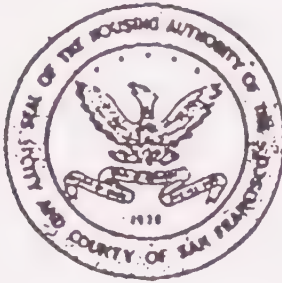
2A Have the HA implement procedures to close general ledgers timely. Finding 3

2B Require the HA general ledger accounts be prepared and corrections posted monthly. Finding 3

Additionally, the latest Independent Audit report (number 92-NR-6218, dated August 6, 1992) completed by Morris-Davis & Company for the fiscal year ended September 30, 1990 contained the three following findings:

1. Prior year's audit and SFHA adjusting journal entries were not recorded in the general ledger.
2. The Authority did not maintain procedures to submit reports and claims for reimbursements for costs incurred under cost reimbursement types of contracts/grants on a timely and regular basis.
3. Inappropriate accounting and recording of interfund transactions.

The SFHA's Fiscal Year 1991 PHMAP Certification (Form HUD-50072)

**SAN FRANCISCO HOUSING AUTHORITY**

440 TURK STREET • SAN FRANCISCO, CALIFORNIA 94102 • TELEPHONE (415) 554-1200

January 24, 1992

Mr. Robert J. De Monte
Regional Administrator
Regional Housing Commissioner
U.S. Department of Housing
and Urban Development
San Francisco Regional Office, Region IX
450 Golden Gate Avenue
San Francisco, CA 94102

SUBJECT: Application to be De-Designated as a "Troubled" Public Housing Authority

Dear Mr. De Monte:

It is with great satisfaction that we submit this application to the U.S. Department of Housing and Urban Development to de-designate the San Francisco Housing Authority as a "Troubled" Public Housing Authority, a designation held by this agency since 1984. When I arrived at the San Francisco Housing Authority in May, 1989, the major responsibility my Commission challenged me to do was to lead this agency to the point where "troubled" was no longer a part of our name. After completing our internal assessment in accordance with the newly-published performance standards under the Public Housing Management Assessment Program (PHMAP), I believe this challenge has been met.

Our request to you today reflects a major collaborative effort by staff and the consistent support of our Commission which enthusiastically and unanimously adopted the PHMAP-required certifications of our performance and authorized my submission of this application to you for de-designation as a troubled agency.

Attached is our internal assessment, the PHMAP certifications, and the adopting resolution by the Commission. We believe we are among the first troubled agencies to submit an application for de-designation and we look forward to being the first in the nation so recognized.

Sincerely,

David Gilmore
Executive Director

Public Housing Management Assessment Program (PHMAP) Certification

U.S. Department of Housing
and Urban Development
Office of Public and Indian Housing



OWB No. 2577-0138 (exp. 11/1/99)

Public reporting burden for this collection of information is estimated to average 1.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Office of Information Policies and Systems, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3800 and to the Office of Management and Budget, Paperwork Reduction Project (2577-0138), Washington, D.C. 20503. Do not send this completed form to either of these addresses.

PHA:

SAN FRANCISCO HOUSING AUTHORITY

Date: January 23, 1992

We hereby certify that, as of the above date, the (name)

SAN FRANCISCO

Housing Authority reports the following indicators under the Public

Housing Management Assessment Program (PHMAP) to be true and accurate for its fiscal year ending September 30, 1991

Indicator 1: Vacancy Number & Percentage

Actual vacancy percent	2 %
Total vacant units	140
Adjusted vacancy percent	1 %
Percent reduction of actual vacancies over prior three years	75 %

Indicator 3: Rents Uncollected

Percent of average annual rents uncollected	4.26 %
---------------------------------------------	--------

Indicator 5: Unit Turnaround

Annual average number of calendar days for vacant unit to be prepared for re-rental	13.4
System has been established to track unit turnaround (enter Yes, No or N/A)	Yes

Indicator 6: Outstanding Work Orders

Percent of emergency items corrected/abated within 24 hours	Less Than 95%
Percent of outstanding work orders	Exceeds 12%
Progress has been demonstrated over the most recent three year period at reducing the time required to complete maintenance work orders (enter Yes, No or N/A)	Yes

Indicator 7: Annual Inspection and Condition of Units and Systems

System has been established to track inspection and repair of units and systems (enter Yes, No or N/A)	Yes
PHA used standards that were at least equivalent to the Housing Quality Standards (HQS) (enter Yes, No or N/A)	Yes
Percent of units inspected annually	100 %

Percent of units meeting HQS	No data available
Percent of emergency items corrected/abated within 24 hours	No data available
Average number of days to bring non-emergency maintenance items to HQS	No data available
Percent of Non-emergency maintenance items that were corrected according to PHA's maintenance plan	No data available
Major systems are inspected annually (enter Yes, No or N/A)	No data available
Average number of days to correct identified systems deficiencies	No data available
Percent of systems deficiencies that were corrected according to PHA's maintenance plan	No data available
Maintenance plans for units and systems have been established and are followed (enter Yes, No or N/A)	N/A

Indicator 8: Tenants Accounts Receivable (TARs)

The PHA elects to use: (mark one)
The Annual Average Annual TAR Percent ☒

Indicator 11: Resident Initiatives

Policies have been adopted and procedures implemented for: (enter Yes, No or N/A)

Anti-drug strategy/security	Yes
Resident participation/management	Yes
Homeownership opportunities	No
Economic development/self-sufficiency	Yes
Number of areas at which PHA has been successful in significantly improving conditions/activities	3

The undersigned further certify that, to their present knowledge, there is no evidence to indicate seriously deficient performance that casts doubt on the PHA's capacity to preserve and protect its public housing developments and operate them in accordance with Federal law and regulations. Appropriate sanctions for intentional false certification will be imposed, including suspension or debarment of the signatories.

Chairperson, Board of Commissioners: (signature & date)

Reverend James E. Goode

Authorized by: Executive Director: (signature & date)

David Gilmore

X 1-23-92

X 1-23-92

A Board Resolution approving this certification is required and shall be attached to the executed certification.

[PR Doc. 92-1214 Filed 1-10-92 8:43 am]

BLMHS CODE 4116-01-0

Form HUD-90075 (1-91/7/91)
rel. Handbook 7400.8

Resolution No. 3746
Date Adopted: January 23, 1992

RESOLUTION APPROVING THE CERTIFICATIONS FOR PERFORMANCE
INDICATORS UNDER THE PUBLIC HOUSING MANAGEMENT
ASSESSMENT PROGRAM (PHMAP) AND
AUTHORIZING THE EXECUTIVE DIRECTOR TO APPLY TO HUD FOR
REMOVAL OF THE SAN FRANCISCO HOUSING AUTHORITY
FROM TROUBLED STATUS

WHEREAS, the U.S. Department of Housing and Urban Development issued the rule on the Public Housing Management Assessment Program (PHMAP) which provides twelve (12) indicators which will be used by HUD to evaluate the management performance of Public Housing Agencies; and

WHEREAS, the San Francisco Housing Authority is designated by the U.S. Department of Housing and Urban Development as a "Troubled" agency; and

WHEREAS, the existing Memorandum of Agreement between the San Francisco Housing Authority and the U.S. Department of Housing and Urban Development which began on July 1, 1991, terminates at the time HUD implements the Public Housing Management Assessment Program (PHMAP); and

WHEREAS, the San Francisco Housing Authority performed an internal performance assessment in accordance with the new PHMAP rule which reveals that the SFHA's management performance has improved to a level qualifying for de-designation by HUD as a "Troubled" agency; and


WHEREAS, the San Francisco Housing Authority is required to provide certification as to data on PHMAP performance indicators not found in existing HUD reporting and data forms; namely, Indicators, 1, 3, 5, 6, 7, 8, and 11;

NOW, THEREFORE, BE IT RESOLVED BY THE COMMISSION OF THE HOUSING AUTHORITY OF THE CITY AND COUNTY OF SAN FRANCISCO THAT:

1. The San Francisco Housing Authority approves the certification under the Public Housing Management Assessment Program for performance indicators 1) Vacancy Number and Percentage; 3) Rents Uncollected; 5) Unit Turnaround; 6) Outstanding Work Orders; 7) Annual Inspection and Condition of Units and Systems; 8) Tenant Accounts Receivables; and 11) Resident Initiatives.
2. The President of the Commission is authorized to execute the PHMAP certified questionnaire.

3. The Executive Director is authorized to apply to the U.S. Department of Housing and Urban Development for removal of the San Francisco Housing Authority from "Troubled" status.

APPROVED AS TO FORM:


Geraldine L. Chavis
Legal Counsel

January 16, 1992
Date

THE SFHA's STAFFING ALLOCATION FOR FOR ITS MAINTENANCE PROGRAM

<u>Position</u>	<u>Number</u>	<u>Note</u>
Paint Foreman	2	(1)
Painter	18	(1)
General Laborer Foreman	1	(2)
Labor Foreman	64	(2)
Laborer	2	(2)
Custodian Foreman	40	(2)
Custodian	0	(2)
Maintenance Specialist	2	(1)
Carpenter	17	(1)
Electrician Foreman	1	(1)
Electrician	3	(1)
Plumber Foreman	2	(1)
Plumber	13	(1)
Steamfitter Foreman	1	(1)
Steamfitter	1	(1)
Glazier Foreman	1	(1)
Glazier	5	(1)
Lino-Layer Foreman	1	(1)
Lino-Layer	<u>3</u>	(1)
Total	<u>179</u>	

- (1) These 70 positions are held primarily by skilled craftsmen responsible for project unit repairs.
- (2) These 109 positions are held primarily by laborers and custodians responsible for interior and exterior project cleanup.

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SUMMARY OF THE SFHA MANUAL CHECKS "CASHED BUT
NOT PROCESSED" WHICH WERE REVIEWED BY OIG
AS OF APRIL 12, 1992

<u>Check #</u>	<u>Date</u>	<u>PayeeAmountNote</u>
434105	10/1/91	Dow Builders\$241,974.31(1), (2)
434629	10/28/91	SF Police Dept 64,508.26(2)
434630	10/28/91	SF Police Dept 64,508.26(2)
434631	10/18/91	SF Police Dept 64,508.26(2)
120087	12/20/91	SFPD Special Law 387.049.56(2)
120472	1/17/92	SFPD Special Law <u>120,016.52</u> (2)
Total		<u>\$951,565.17</u>

- (1) SFHA could not find the existing support for this check.
- (2) As of April 12, 1992; the SFHA had not posted these checks in appropriate General Ledger accounts or prepared a purchase order.

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DESCRIPTION OF THE SFHA's METHODS FOR ALLOCATING SALARY COSTS TO PROGRAMS (INCLUDING SECTION 8 PROGRAM)

<u>Program</u>	<u>Method</u>	
	<u>No. of Units</u>	<u>1 1 2 2</u>
Low Rent	6,689	60% 64%
Section 8 units (excluding 11-B units)	3,798	34% 36%
Section 8 11-B units	<u>707</u>	<u>6%</u> <u>- 3</u>
Totals	<u>11,194</u>	<u>100%</u> <u>100%</u>

1 Method 1:

This method is based on the percentage of units in each program over the total number of units.

2 Method 2:

This method excludes the Section 8 11-B units.

- 3 The SFHA was the contract administrator for the Section 8 11-B units. As contract administrator, the SFHA primarily reviewed project staff compliance with Section 8 requirements.

DESCRIPTION OF THE SFHA's METHOD FOR ALLOCATING SALARY COSTS TO PROGRAMS (EXCLUDING SECTION 8 PROGRAM)

Allocation Percentages and Programs

<u>Position</u>	<u>Low Rent</u>	<u>CIAP</u>	<u>Section 8</u>	<u>Grants</u>
Office Manager 4	60	-	40	-
Director of Personnel Services 4	60	-	40	-
Employee Relations Specialist 5	64	-	36	-
Fleet Specialist 5	64	-	36	-
Executive Director 6	30	30	40	-
Legal Counsel 6	30	30	40	-
Controller 6	30	30	40	-
Internal Auditor 7	34	30	36	-
Procurement Officer 7	34	30	36	-
Director of Resident Services 8	-	30	-	70
Director of Maintenance 8	80	20	-	-

4 Allocation Method 1.

5 Allocation Method 2.

6 Section 8 percentage from Method 1 when CIAP was included in the allocation.

7 Section 8 percentage from Method 2 when CIAP was included in the allocation.

8 Arbitrary allocation percentage when Section 8 was not included.

Summary of Unreasonable, Unnecessary, and Ineligible
SFHA Expenses Paid from Operating Funds
May 1989 - May 1992

Item/Description	Amount	Reason Costs Questioned
Office space, security services and renovation	\$65,910	Executive Director provided misleading justification. SFHA had adequate, available space elsewhere and at less cost to the PHA.
Entertainment Costs 1	53,059	Such costs are prohibited by the ACC and OMB Guidelines.
Executive Director's Public Employees' Retirement System Contributions	25,004	Use of operating funds for this expense is contrary to program requirements and comparable local public policy.
New vehicle lease (1992 4-wheel drive vehicle with optional equipment)	18,247	Existing vehicle (1989 Model) still in good condition. New vehicle appeared to have been leased at Executive Director's personal preference.
Executive Director's prepaid annual leave	16,832	Use of operating funds for this purpose is contrary to local public policy.
Unjustified paid time off (284 hours of paid time off for 23 employees)	8,593	SFHA lacked adequate justification for granting the paid time off.
Executive Director's travel cost (to attend meeting not sanctioned by organization cited as sponsor)	1,333	Expenditure was unnecessary and inappropriate as it was not an official meeting.
Labor Union fees (4 employees)	1,207	Union fees are the responsibility of the employees and not an eligible use of operating funds.
Employee parking tickets (including Executive Director)	1,049	SFHA policy states that employees are responsible for parking tickets received while operating SFHA vehicles. SFHA made no attempt to recover the monies from the employee.
Personal long-distance telephone calls (2 employees)	612	SFHA permitted 2 employees the use of its telephones for long-distance call but did not ensure that the employees reimbursed SFHA.
Total	\$191,846	

1 See also Appendices F and G for an itemized listing of the amounts charged for parties and meals.

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Appendix F: Ineligible Costs for Entertainment

Item #	Date	Check #	Amount	Payee	Description
1	10/5/90	428817	300.00	Jacqueline Johnson	Purchases for Picnic
2	10/12/90	428890	1,150.00	John Evans	Meats & Prizes
3	10/18/90	428910	550.00	Safeway	Drinks and Ice
4	10/26/90	429054	250.00	Jewel Green/Vera E. Kennedy	Halloween Party
5	10/29/90	429065	150.00	Gayle Powell/Laura Gi	Bernal Res Assoc Halloween Party
6	10/29/90	429066	150.00	Alta Faye Scales/Betty Je	Alemany Halloween Party
7	10/29/90	429067	150.00	Dorinda Jones/Babs Done	Plaza East Tenants Assoc Halloween
8	10/29/90	429068	150.00	Florine Johnson, President	Hunters Pt. A West Halloween
9	10/29/90	429070	200.00	Brenda Stringer/Deborah D	Halloween Party
10	11/7/90	429125	500.00	Jewel Green/Vera E. Kennedy	Food for neighborhood clean-up
11	11/9/90	429228	2,500.00	Operation Contact Youth	Hunters View Res. neighbor. clean-up
12	11/16/90	429310	175.00	Jewel Green/Vera E. Kennedy	Supervisor - Hunter's View Clean-up
13	12/10/90	429575	250.00	Knights Party Production	Brkft. for staff at Sunnydale
14	12/10/90	429576	150.00	Bobbie Sanders & Ms. Blac	Food for Randolph/Head Res. Assoc XM
15	12/10/90	429578	200.00	Senior Citizen's Citywide	Holiday Luncheon 12/10/90
16	12/10/90	429579	200.00	Alta Faye Scales/Tiki Hadley	XMAS dinner at Alemany
17	12/10/90	429580	200.00	Bernice B. Castaing/Glori	Food & Refresh/Holly Courts XMAS
18	12/14/90	429665	100.00	Benny L. Wright & Ella Ro	XMAS Party to be Held 12/19/90
19	12/14/90	429666	500.00	Jewel Green/Vera E. Kennedy	Hunter's View XMAS Party
20	12/14/90	429667	200.00	Carolyn Marshall & Laura	Treats for Children's XMAS Bags
21	12/14/90	429668	300.00	Starr Williams & Sadie Ty	Items for XMAS Bags(Potrero Terrace)
22	12/14/90	429669	200.00	Barzillia Ellis/Emily Smith	XMAS Bags for Seniors
23	12/14/90	429670	200.00	Cleola Richardson/Kermuie	XMAS Party 12/20/90
24	12/14/90	429671	300.00	Gayle Powell/Laura Gi	Children's XMAS Party
25	12/17/90	429681	561.25	KMS Catering Inc.	Catering for Christmas Party Lunch
26	12/17/90	429682	250.00	Carlene Williams/Jeri Maxwe	Valencia Gardens XMAS Party
27	12/17/90	429683	500.00	Christine Neal/Annie Mann	Alice Griffith Party 12/21/90
28	12/17/90	429684	450.00	Cleo Wallace	Food & Supplies SFHA XMAS party
29	12/12/90	429686	300.00	Florine Johnson/Diane Givens	Hunters Pt. Tenant Assoc. XMAS Party
30	12/17/90	429687	150.00	Reba Adams/George Smith	1750 McAllister Tenants Assoc XMAS
31	12/18/90	429688	250.00	Lorraine Bender & Hazel W	N. Beach Children's XMAS Party
32	12/19/90	429691	500.00	Boys & Girls Club-Sunnydale	XMAS Party for Children of Sunnydale
33	1/10/91	429903	65.00	Vientiane Restaurant	Affirmative Action Task Force Lunch
34	1/11/91	429982	327.50	All Occasion Rental	Rental Equip. for SFHA XMAS party
35	1/22/91	430140	371.25	Armanino's Delicatessen	Catering - leadership forum 1/22/91
36	2/1/91	430279	89.05	Armanino's Delicatessen	Lunch for Sunnydale-leadership
37	2/22/91	430576	281.53	Knights Party Productions	Lunch. for picnic committee
38	2/22/91	430594	709.13	San Jordan's Calif. Catering	Alemany Res. Luncheon and Open House
39	3/22/91	431087	300.00	Jewel Green/Vera E. Kennedy	Hunters View Easter
40	3/29/91	431106	150.00	Alta Faye Scales/Betty Je	Easter Party - Children at Alemany
41	4/9/91	431336	209.72	First Impressions	T-shirts for women employ. B-Ball
42	4/23/91	431568	428.00	Calif. Catering Co.	Secretary's Day Event
43	5/9/91	431772	683.20	KMS Catering INC.	Catering for Leadership forum
44	6/3/91	432134	89.88	Henry Schrupf	Flowers-clerical (Secy's Day)
45	6/3/91	432189	1,255.08	KMS	Reception
46	6/21/91	432437	100.00	Alta Faye Scales/Katy Young	Refreshments
47	6/25/91	432511	250.00	Mrs. Lee Alford	Rosa Parks Tenants Assoc July 4th
48	6/28/91	432521	267.50	Knights Party Productions	Catering for Leadership forum
49	6/28/91	432522	267.50	Knights Party Productions	Catering for Leadership forum
50	7/1/91	432617	457.52	Michael Kelly	Reimb. of meal

Item #	Date	Check #	Amount	Payee	Description
51	7/10/91	432700	200.00	Betty Brooks	Refresh. for employee B-Ball game
52	8/1/91	433099	1,479.00	KMS	Luncheon Director of Rehab & Constr.
53	8/14/91	433323	148.74	Henry Schrupf	Flowers
54	8/15/91	433336	4,157.67	Laidlaw Transit Co.	Annual Summer field trips
55	8/29/91	433565	425.00	Ned & Valmore Restaurant	Refreshments for leadership forum
56	9/13/91	433844	692.80	First Impressions	3rd Annual Employee Picnic
57	9/24/91	433970	160.00	Cynthia Williams/Shirley	Refreshments for community mtg.
58	9/25/91	433973	746.93	First Impressions	3rd Annual Employee Picnic
59	9/25/91	433974	265.00	Turk & Larkin Delicatessen	Catering for leadership Forum
60	10/8/91	434141	1,545.00	John J. Evans, Sr.	Picnic Food & Supplies
61	10/8/91	434142	435.00	Gisela M. Avedikian	Raffle Prizes & Picnic
62	10/4/91	434192	44.65	Turk & Larkin Deli.	Sodas and Sandwiches
63	10/4/91	434193	630.00	Doherty/Dunne	100 Baseball Gloves - youths at proj.
64	10/9/91	434255	700.00	Sandra Branch	MISC Food for SFHA Picnic
65	10/9/91	434256	800.00	Troy D. McGehee	Prizes & Equip. for Picnic 10/19/91
66	10/10/91	434262	950.00	Bridgette Moore	Picnic Committee
67	10/11/91	434383	204.43	Elizabeth Yip	Reimb. for chef hats,...etc. for picnic
68	10/21/91	434495	150.00	Florine Johnson/Diane Giv	Halloween Hunters Pt. A West
69	10/21/91	434496	200.00	Christine Neal/Annie Mann	Halloween for Alice Griffith
70	10/23/91	434522	300.00	Jewel Green/Vera E. Kennedy	Halloween at Hunters View
71	10/25/91	434591	194.85	Knights Party Production	Continental bkft. senior staff mtg.
72	10/28/91	434637	549.93	Doublet	Banner for R. Pitts "Were Home"
73	10/28/91	434639	300.00	Delores Field/Shirley Dorton	Halloween - Sunnydale
74	10/28/91	434640	100.00	Reuben Smith	Hunters Point
75	10/28/91	434641	150.00	Letonia Murdock/Joyce Allen	Halloween Party Bernal Dwellings
76	10/29/91	434643	200.00	Lorraine Bender/Shirley D	Halloween Party at N. Beach
77	10/31/91	434648	150.00	Alta Faye Scales/Wanda	Halloween
78	11/1/91	434660	150.00	Carlene Williams	Halloween for Valencia
79	10/31/91	434698	150.00	Katie Young/Betty Hoskins	Halloween at Alemany
80	11/4/91	434777	108.25	Calif. Catering Co.	Senior staff meeting
81	12/9/91	434781	324.75	Calif. Catering Co.	Lunch for "1991 Picnic Committee"
82	11/22/91	435169	100.00	Eva M. Willaims/Linda Willaims	Technical Assistance (Food)
83	11/26/91	435174	115.00	Ned & Valmore Restaurant	Technical Assistance
84	12/6/91	120013	300.00	Thelma Kavanaugh/Anna Mae	Funds for XMAS - City-Wide Council
85	12/31/91	120042	250.00	Alf Blake	XMAS at N. Beach
86	12/13/91	120043	450.00	Hasinah Rahim	Funds - leadership forum XMAS
87	12/16/91	120049	600.00	Jewel Green/Vera E. Kennedy	Fund for XMAS - Hunter's View
88	12/16/91	120050	200.00	Yolanda Travis/Ruthie Pie	XMAS at Westbrook Hunters Pt. A East
89	12/17/91	120055	100.00	Bobbie Sanders & Ms. Blac	Funds for XMAS at Head/Randolph
90	12/17/91	120057	900.00	Shirley Dorton/Delores F	XMAS Activities - Sunnydale Develop.
91	12/18/91	120058	100.00	James Franklin	XMAS - Great Highway
92	12/18/91	120061	250.00	Basilissa Dow/Debra Markam	XMAS at Plaza East
93	12/18/91	120064	100.00	Bennie Wright	XMAS at 4101 Noriega Development
94	12/18/91	120065	150.00	Sonja Allen	Funds for XMAS - Alice Griffith
95	12/20/91	120089	250.00	Yvonne Gage/Susan Curry	Funds for XMAS Hunters Pt.
96	11/91	120391	500.00	Starr Williams & Sadie Tyler	Funds for XMAS at Potrero Terrace
97	2/4/92	120723	395.00	Ned & Valmore	Food for leadership forum
98	3/16/92	121522	111.50	Turk & Larkin Deli	Refresh. for election committee trng.
99	3/25/92	121678	42.36	Sam Jordan's Calif. Catering	Technical Asst. for leadership forum
100	4/9/92	121940	100.00	Doris Wilson/Brenda Stringer	Refresh. for PHTA Election 4/10/92
101	4/10/92	122011	200.00	Turk & Larkin Deli	Resident mtg. held at Turk
102	4/15/92	122074	200.00	Yarzillia Ellis/Sadie Tyler	Funds for Easter

103	4/22/92	122198	542.20	Calif. Catering Co.	Coffee,tea,...etc. for Secy's Day
104	4/23/92	122206	100.00	Doris Wilson/Ruby Windom	Refresh. for PHTA Election 4/24/92
105	5/29/92	122925	157.33	Erna Press	"Off the List" Invitations & envelop.
106	6/19/92	123304	138.35	American Hot Coffee Service	For PHTA newly elected officers mtg.
107	6/19/92	123332	482.80	Doublet	4'x 20' banner - "Were off the List!"
108	6/19/92	123343	1,426.78	Upton Catering Service	The "Off the List" party
109	6/25/92	123385	131.46	Del Price	Refresh.,"off the list", duty off. exp.
110	6/26/92	123434	143.42	Schrumpf Florists	Flowers for Secy' Day

Total: \$43,436.31
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Appendix G: Ineligible Entertainment Costs Charged to SHIA Credit Card

tem #	Trans.				
1) (2)	Date	Amount	Place	City	Description
1	12/12/90	\$70.12	Hungry Hunter	S.SF	Dinner with OKM representatives
2	12/06/90	\$52.04	Stars Restaurant	SF	Luncheon Mtg. with President of Commission (1990-91)
3	12/13/90	\$39.85	Stars Restaurant	SF	No supporting documentation.
4	12/18/90	\$16.48	South Grand Hyatt	SF	Breakfast Meeting with one person
5	12/22/90	\$135.63	North Beach Restaurant	SF	With labor negotiator and two others
6	1/7/91	\$59.59	Washington Square Bar & Grill	SF	With labor negotiator and one other person
7	1/8/91	\$74.00	Max's Manhattan Prime	SF	Dinner with Executive Assistant
8	1/16/91	\$67.80	Harris Restaurant	SF	With labor negotiator two others
9	1/17/91	\$27.64	Atherton Hotel	SF	No supporting documentation.
10	2/21/91	\$18.89	Atherton Hotel	SF	No supporting documentation.
11	3/12/91	\$20.17	S. Westin Hotel St. Francis	SF	With President of Commission (1990-91) and one other
12	3/29/91	\$43.45	Stars Restaurant	SF	Lunch Meeting. with a San Francisco Supervisor
13	4/3/91	\$57.49	Stars Restaurant	SF	No supporting documentation.
14	4/24/91	\$67.01	Castagnolas	SF	Exec Dir. let Dir. of Res. Serv. use card for meal with tenant
15	5/1/91	\$35.20	Stars Restaurant	SF	With a San Francisco Supervisor
16	5/29/91	\$23.10	Embassy Restaurant	SF	3 commissioners & Internal Auditor RE: HUD MOA mtg.
17	6/19/91	\$26.34	Atherton Hotel	SF	No supporting documentation.
18	7/20/91	\$42.67	Embarko in Mill Valley, CA	MV	Luncheon Mtg. with President of Commission (1990-91)
19	7/24/91	\$37.28	Atherton Hotel	SF	Lunch with Executive Assistant & 2 others
20	8/13/91	\$227.58	Scomas	SF	Asst. Dir. Con Hsg Prog., Dir. of Resident Serv., President of a Resident Mgmt. Corp. in Chicago, IL & 2 other people
21	8/22/91	\$38.75	Stars Restaurant	SF	Lunch with one person
22	8/23/91	\$31.44	Stars Restaurant	SF	Luncheon Mtg. with President of Commission (1990-91)
23	9/18/91	\$63.53	Stars Restaurant	SF	Labor negotiator and one other person
24	9/12/90	\$30.58	Max's Manhattan Prime	SF	With another commissioner
25	9/14/90	\$51.45	Embarko in Mill Valley	MV	Exec Dir., Acting Dir. of Rehab & Const., Commissioner & 1 other
26	10/3/90	\$40.18	Stars Restaurant	SF	With person from Department of Social Services
27	10/5/90	\$36.65	The Fly Trap	SF	Lunch Regarding Property & Loan Service
28	12/27/91	\$49.25	Kuletos	SF	With person from Affirmative Action Committee
29	5/2/91	\$52.27	Stars Restaurant	SF	With Executive Director & another Commissioner
30	5/3/91	\$44.12	Stars Restaurant	SF	With person from Mayor's Office
31	5/16/91	\$47.45	Stars Restaurant	SF	With Executive Director
Total		\$1,628.00			

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SAN FRANCISCO HOUSING AUTHORITY

440 TURK STREET • SAN FRANCISCO, CALIFORNIA 94102 • TELEPHONE (415) 334-1200

rec'd. HUD OIG

SEP 4 1992

September 4, 1992

Mr. Miguel Barrios
Regional Inspector General for Audit
Department of Housing and Urban
Development
Box 36003
San Francisco, CA 94102

Dear Mr. Barrios:

Attached you will find the revised formal responses of the San Francisco Housing Authority to the draft findings of the Inspector General's audit of this agency which began in November 1991. I want to thank you for the time Jim Farriols and the audit staff spent with us reviewing the draft findings in late August.

Based upon the assurances which you and your staff have provided to us, it is our understanding that a number of factual inaccuracies and misquotes which appeared in the draft findings will be corrected in the final report. While we do not agree that the limited number of changes you have indicated during the exit conference will adequately correct the information and conclusions contained in your draft findings, our responses have been modified based upon the expectation that these changes will be reflected in the published report. To the extent that these changes are not made, our original submission in response to your draft findings should be included.

Unfortunately, the discussions and voluminous documentation we provided only served to underscore our contention that the audit did not meet a number of the basic standards governing the conduct of IG reviews. It lacked objectivity. It sorely lacked factual bases for many of its conclusions. It was not independently conducted. Due professional care was frequently not in evidence.

In general, it appears the Inspector General blames the San Francisco Housing Authority for adherence to rules and regulations established by HUD that it does not like. Such matters should be brought to HUD's attention directly, not through audits of local agencies.

Miguel Barrios

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September 4, 1992

Moreover, the abrupt and hurried manner in which this review was terminated, the premature provision of information to Congressional and HUD personnel before data collection was complete and before your obligation to inform the Authority of concerns, and the pressure on your staff at this very moment to respond to information requests by staff of a Congressional committee suggest that the IG is more interested in providing a script for that Committee than it is in fairly and objectively portraying this Authority's performance.

I have been reporting voluminously and objectively to HUD and the citizens of San Francisco on the conditions of public housing and this agency's progress every six months since the inception of my tenure. Literally thousands of pages have been written, many of which contained quite critical comments on areas of the Authority's performance which were not adequate. These same reports, however, chronicle steady, measurable, and fully documented improvements which have been accomplished over the past three years. HUD has assessed us continuously and has consistently confirmed that progress. The HUD Assistant Secretary for Public and Indian Housing saw our achievements first hand and acknowledged them publicly. The San Francisco Civil Grand Jury, which once characterized conditions as worse than those at the San Bruno Jail, has also recognized the dramatic improvements we have made. Confirmation also comes from annual examinations by independent auditors. Yet, the draft findings contain not a single word of acknowledgement of any improvements at this agency. The San Francisco Housing Authority does not claim to be a perfectly performing PHA. It IS a standard performing agency by HUD's own definition which was once troubled but is no longer. No amount of manipulation or misstatement of the facts can change that fact.

The responses attached and the supporting documentation we provided to your staff over the past three weeks quite effectively demonstrate that most of the findings are without merit. However, a few specific points are especially worth highlighting:

- Samples used by the auditors were frequently selectively determined by "auditor's discretion" and were admittedly biased with the goal of proving a point by extreme examples rather than fairly and accurately portraying the routine operations of the San Francisco Housing Authority. Even when a sample was selected "randomly" the sample size used was grossly inadequate to provide the basis for any conclusion. Such samples cannot be portrayed as representative of a larger universe. Thus, they may not be used as a basis for conclusions regarding this Authority's general operations.
- The draft report contained numerous instances of falsification of quotes by the auditors to support otherwise groundless conclusions. Although we have been informed that these misquotes will be corrected in the final report, they are indicative of a slipshod approach and a lack of appropriate care, particularly given the apparently wide distribution of the draft findings by the IG. The IG's admission that misquotes were included in the draft findings also leads us to

Miguel Barrios

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September 4, 1992

question the veracity of other quotes from unnamed individuals which are included or referenced in the report, particularly where such quotes do not accurately portray the policies or practices of the Authority.

- The obligation to maintain confidentiality during the conduct of the audit was violated frequently. Though the Authority was assured at the initial conference it would be kept abreast of any preliminary findings or concerns found by the auditors, the Authority was never advised of any findings or concerns or given an opportunity to correct inaccurate or incomplete information until it received the hurriedly compiled draft findings early in August. Others, including congressional staff, HUD staff, and unrelated members of the public (including the spouse of a high-level HUD Headquarters official), were continually fed information which has now been proven by us to have been inaccurate.

I think if you have taken the time to reflect on the data we supplied your office during our meetings on the Draft Findings, you have found that significant revisions to the findings were necessary. We are concerned that the rush to prepare the Final Audit Report in time for the Lantos hearings may have crimped the attention you would normally give to the voluminous data we have given you. At the exit conference last week, you indicated that you and your staff had not had time to thoroughly review the documentation we had provided and that you might be unable to reconcile contradictions between your findings and this additional information in time for publication of the Final Audit Report. This is extremely troubling to us. While we appreciate the corrections which you have agreed to make to the draft findings, these are insufficient to respond to the data we have provided. We expect that you will include verbatim our summary responses with your findings so that the public can see both sides of the issues that remain unresolved.

In closing, we request that you deliver the Final Audit Report a sufficient number of working days before the scheduled hearing so that we will be able to prepare ourselves to fully inform the committee on our areas of disagreement. Friday, September 11th, hardly seems adequate given that the hearing is scheduled for the following Monday.

Sincerely,


David Gilmore
Executive Director

DG/svf

PHMAP

SFHA RESPONSE: DOCUMENTATION CONFIRMS SFHA OFFICIALS PROVIDED AN ACCURATE, DOCUMENTED, FACTUALLY CORRECT PHMAP CERTIFICATION FOR FISCAL YEAR 1991. THE IG HAS FAILED TO SUBSTANTIATE ITS CONTENTION TO THE CONTRARY

The Authority's assessment of its fiscal year 1991 performance with respect to the Public Housing Management Assessment Program (PHMAP) is accurate and well documented. HUD's confirmatory review properly concluded that the improvements at the SFHA warranted the removal of the "troubled" designation. Despite nine months of study, the IG has not unearthed any evidence that the de-designation was not warranted.

INDICATOR 1 - VACANCY NUMBER AND PERCENTAGE

During the PHMAP confirmatory review with HUD officials, it became evident that SFHA and HUD had different ideas of what constituted a vacant unit for purposes of PHMAP. The SFHA agreed to recalculate its vacancy statistics using HUD's newly articulated definition and determined that the SFHA maintained an overall occupancy rate of 98 percent during FY 1991 after deducting units vacated for modernization.

The Authority conducted a comprehensive analysis of apartments occupied, vacated, and re-rented, through the entire FY 1991 and on the basis of a complete hand count of all rent billings for each month of the year minus all occupancy-related rent credits given during the period, the Authority confirmed that its average occupancy level for FY 1991 was 98 percent.

The auditors' report was inaccurate with respect to how the Authority had defined and presented information pertaining to its vacancy performance. It is noted that the Authority had already discussed its vacancy rate and the impact the definition change of when a vacant unit was considered occupied would have on the Authority's score with HUD through the exchange of a series of letters and conversations. The auditors were apparently not aware the issue had been fully and openly reviewed and the auditors did not communicate this interest in the matter to the Authority so the information and documentation were not offered. Also, the Authority fully documented its vacancy rate for the entire period using both definitions of occupancy date. The final results of our calculations were an average occupancy level of 98 percent for the first half of the year and 99 percent for the second half of the year.

INDICATOR 3 - UNCOLLECTED RENTS

The uncollected rent figure used by the auditors as the basis for this finding does not include such appropriate adjustments as rent credits, rent adjustments to reflect reductions in tenant income, and partial rent charges for units occupied during a month. Therefore, the auditors uncollected rent figure is higher than ours. The difference is also due, in part, to a change in the methodology called for under PHMAP for counting vacated accounts for tenants

who moved out during the fiscal year. However, using the calculations prescribed by the PHMAP Handbook, and including vacated accounts that had been excluded from our original calculation, the Authority's figures are still lower than the auditors. The new methodology results in a grade "C" for the Authority based on uncollected rents equal to 5.79 percent. The Authority continues to believe it is appropriate to count amounts held in escrow as rent collected as of the end of the fiscal year.

INDICATOR 5 - VACANT UNIT TURNAROUND

Contrary to the auditors' claim, the Authority has a system for tracking vacancy turnaround. Although the system is not fully automated, it meets our information and reporting needs. Our system for tracking vacancy duration was described to HUD in detail in our March 20, 1992 correspondence and was certified by HUD as acceptable during the confirmatory review. The average vacant unit turnaround time in the 1991 fiscal year was 29 days, which qualifies the Authority for a grade "C." The Authority initially claimed a grade "A" based upon its original definition of the occupancy date as described in Indicator 1. When that definition was challenged by HUD and its recommended definition adopted, the Authority revised its PHMAP submission regrading itself from "A" to "C."

In addition, the Authority views the auditors' findings and conclusions questionable in this area because we found their methodology was flawed and certain calculations were incorrect. The Authority's analysis included a count of every unit and every rent credit for the entire 1991 fiscal year, not merely a sample.

INDICATOR 7 - ANNUAL INSPECTIONS

Component 1: System to Track Inspection and Repair of Units and Systems

The Authority disagrees with this assessment and maintains that a grade "A" should stand for this component. The issue of the Authority's tracking system was addressed previously with HUD and HUD found the system acceptable. Apparently, the IG was unaware of this. The Authority's tracking system is not fully automated in that the computer system used did not provide data on scheduled versus actual inspections and work orders generated to correct unit deficiencies noted during inspections were not distinguishable from all other work orders. As a result, a manual system was used for tracking the completion of annual inspections. PHMAP does not require an automated system. The combination of the computerized and manual systems satisfied the information and reporting needs of the Authority and was found acceptable by HUD.

Component 2: Annual Inspection of Units**100 percent of Units Inspected**

At the time of the PHMAP certification and HUD confirmatory review, the SFHA relied on reports from its field staff, which reflected that 100 percent of the units had been inspected. However, when a file-by-file review was performed, the field staff could not locate an inspection sheet for each unit claimed to have been inspected. As a result, the SFHA acknowledges that its score for this indicator should be reduced, but by 6.25 points, not the 7.5 points urged by the IG.

INDICATOR 9 - OPERATING RESERVES

The Authority should maintain a grade "A" for this indicator based on a reserve level of 40.6 percent of the maximum level allowed by HUD. The auditors claim that the Authority could not provide acceptable documentation to support the balance of \$7,820,379 reported for its operating reserves and thus the Authority should receive a grade of "F." The auditors state that the Authority's financial records did not include the reported amount as of September 30, 1991.

Contrary to the auditors' claim, the Authority's HUD Form 52599, Statement of Operating Receipts and Expenditures (which the PHMAP Handbook 7460.5 worksheet indicates is the source to use for reporting on this indicator) for the period ending September 30, 1991, Line 790, shows an Operating Reserve balance of the above amount. Further, HUD has approved year-end PFS adjustments which increase the reserve level. The Authority's reported reserve level is confirmed by the most recent independent audit (with adjustments described in the appendix to this report). Finally, the auditors' description of the Authority's reserve balance is not accurate or complete because it failed to consider investments, outstanding receivables, inventories, or other components of the Authority's reserve balance.

INDICATOR 12 - DEVELOPMENT

This performance indicator assessed the Authority's administration of the Robert B. Pitts Plaza new construction. When the Authority received the notification from HUD on our PHMAP rating, the score for the development indicator had been reduced in the areas of contract administration, timeliness of development, and budget controls. We disagreed with the rating then, but chose not to appeal based on the overall PHMAP rating as a standard PHA. On June 1, 1992, we requested HUD provide us with the basis for the reduced score since the notification letter provided no explanation. The letter of explanation arrived July 31, 1992, two months later. The auditors state that the HUD Office gave the Authority a lower score on this indicator because of problems in developing Robert B. Pitts Plaza. The auditors acknowledge

the lowered score, however, they did not review this indicator. The Authority maintains that its performance in this area warrants a passing grade by HUD.

BOOKS OF ACCOUNTS, RECORDS, AND ACCOUNTING **INTERNAL CONTROLS**

SFHA RESPONSE: SFHA MEETS ACCEPTABLE PERFORMANCE STANDARDS AS CONFIRMED BY THE AUTHORITY'S MOST RECENT INDEPENDENT AUDIT

The SFHA has made great progress under the current administration in overcoming significant and longstanding weaknesses in its accounting and financial management systems and has a comprehensive plan on file with HUD to continue improvement in this area. The Authority's most recent independent audit found that the SFHA meets acceptable performance standards. The IG auditors have failed to provide evidence to support their assertions of accounting deficiencies. For example, the auditors have characterized the Authority's practice of loaning funds between programs as inappropriate even though these transactions are fully documented and (despite the auditors' contentions) fully consistent with nationally recognized and HUD condoned practice. This practice is not commingling. We have consistently provided documentation to support the process of interfund borrowing and account and interfund reconciliations.

The SFHA has provided sound evidence that it pursued reimbursement for expenses from the City in an appropriate manner. The SFHA has also fully explained the reasons for the issuances of manual checks and provided the documentation to support such transactions. One example referenced by the auditors was the result of a delay in contract negotiations with City police and reflected the Authority's interest in ensuring the maximum available security services for residents of public housing. The auditors take great pains to highlight "trivial" account classifications and to highlight rent credit classifications that are dictated by the current out-dated MIS, but have no effect on the operating reserve. Finally, as the auditors were informed, the SFHA assists residents in obtaining gainful employment by advancing funds for union initiation fees which are intended to be paid back through payroll deductions. In two cases we did not identify these reimbursements (for \$435) and have provided documentation on the re-coding. This type of assistance is fully supported by the HUD Secretary's "Step-Up" Initiative.

RENT COLLECTION

SFHA RESPONSE: THE SFHA COLLECTS 98 PERCENT OF RENT BILLED EVERY MONTH. THE SFHA COMPLIES WITH ITS RENT COLLECTION POLICY AND HAS IMPLEMENTED APPROPRIATE PROCEDURES TO INCREASE COLLECTION OF CURRENT BILLINGS AND REDUCE TENANT ACCOUNTS RECEIVABLES.

The SFHA does have agency-wide, standard rent collection policies in place which it uses as guidelines for following through on lease enforcement actions. In the past fiscal year, the SFHA actually reduced its Tenant Accounts Receivables (TARs) by 11 percent.

The auditors criticize the Authority for lack of evidence in the resident files indicating that rent collection procedures are being followed. However, eviction proceedings are automated and are entered into the agency's System 38 computer system. (See attached appendix for further details.) As the auditors' sample shows, the majority of SFHA residents are paying off their delinquencies. The 75 residents identified by the auditors currently owe a total of \$106,892.

The Authority has, in fact, reduced the time it takes to process an eviction and has substantially increased the number of eviction actions being processed. For example, during the quarter ending December 31, 1991, there were 97 complaints filed, while during the March 30, 1992 quarter, 150 complaints were filed. During the first six months of the current fiscal year, the SFHA completed 60 evictions. The hiring of two Legal Clerks has assisted the Authority in this effort.

The auditors failed to determine the status of stipulation agreements they believed were inadequately enforced. The SFHA is either receiving payments, negotiating new agreements, pursuing further legal action, or pursuing wage garnishing for former tenants with outstanding balances. The auditors' finding claiming favoritism or reluctance to collect overdue rent on resident/employee rent balances is grossly misstated. The auditors' report ignores the fact that 91 percent of resident employees are either current, repaying regularly or are within one month of being current on rent.

HOUSING QUALITY STANDARDS

SFHA RESPONSE: THE IG REACHED THEIR CONCLUSIONS BASED UPON SERIOUSLY FLAWED INSPECTIONS OF ONLY 1.5 PERCENT OF THE AUTHORITY'S UNITS

The auditors inspected only 103 apartments. A sample of 1.5 percent is insufficient for use as a measurement of apartment condition in a housing authority of this size. The SFHA inspected the same units inspected by a HUD appraiser and arrived at significantly different findings. SFHA found 36 percent of units without HQS violations. In total SFHA inspections found 257 deficiencies, 41 percent fewer than the HUD appraiser. However, our findings indicate that very few of the deficiencies are of a serious nature or pose a hazard to residents.

The auditors have indicated that the blame for SFHA's conditions lies mainly with a lack of a preventive maintenance program and inadequate inspections. However, the Authority has recently implemented a preventive maintenance program. The real cause for deferred maintenance is inadequate funding of modernization by HUD. The Authority's Comprehensive Plan estimates our capital need at more than \$330 million. Even the best preventive maintenance program could not stop the further deterioration which will most assuredly occur. The finding ignores recent management improvements at the agency which will help the agency to address long-standing maintenance repair needs. These improvements include the creation of a comprehensive Maintenance Plan, HQS and local code training for staff and the commencement of an automated inspection and work order management system.

APPLICANT WAITING LISTS, APPLICANT ELIGIBILITY

SFHA RESPONSE: THE AUTHORITY PLACES ITS INCOMING RESIDENTS IN FULL COMPLIANCE WITH HUD REGULATIONS

Available demographic statistics clearly indicate that applicants are assigned without regard to race or ethnicity and are not selectively referred to certain developments. The last 190 referrals made to Asian households led to 87 offers of housing, eight percent in Chinatown/North Beach and 92 percent in developments outside of Chinatown. Of the 1,510 Asian households in SFHA, 495 (33 percent) live in Chinatown. The data thus indicates that less than half of SFHA's Asian households live in or near Chinatown.

The auditors failed to consider the California Three-Refusal Rule as a factor in concentrated assignments. Statistics indicate that concentrated assignments exist at SFHA sites

due to the refusal of locations offered to applicants, often until units are offered in a development where their race predominates. HUD has recognized the problems inherent in the Three-Refusal rule and has recently superseded State Law and instructed the SFHA to abandon this practice. The auditors also failed to note the existence of a Title VI review of the SFHA by HUD which attributes the existence of racially identifiable developments to conditions dating back to 1985. In addition, a Voluntary Compliance Agreement (VCA) has been reached between SFHA and HUD which specifies strict guidelines for housing referrals, including the abandonment of the Three-Refusal Rule.

The auditors have not recognized a Congressional statute as overriding an outdated HUD regulation on the admission of non-elderly singles. Moreover, what the auditors represent as "political referrals" are actually emergency cases qualifying for a Federal Preference. The nature of these emergencies indicates that due to their Federal Preference these applicants would not have remained on the waiting list for a long period of time.

SALARY AND FRINGE BENEFITS COST ALLOCATION

SFHA RESPONSE: SFHA USES ALLOCATIONS PREVIOUSLY APPROVED BY HUD WHICH ARE CONSISTENT AND FULLY JUSTIFIED WITH APPLICABLE FEDERAL REQUIREMENTS

The unit-based salary allocation method used to determine Section 8 costs has been used by SFHA and approved by HUD annually since 1988. Administrative costs associated with the Section 8 program include not only staff who work directly with the program but eligibility staff who are responsible for Section 8 applicants and waiting list, finance staff who process Section 8 payments and budgets and a variety of staff who provide supervision and administration support services to the Section 8 program and its staff (including payroll, procurement, personnel, legal and executive office). To do otherwise would not be fiscally sound. Moreover, the auditors acknowledge federal regulations do not specify what methods may be used to allocate costs between programs. The Authority believes this is further evidence of the reasonableness of its approach to allocating Section 8 administrative fees, which are provided on a "formula" and not a "cost basis."

The auditors did not discuss CIAP cost allocations with management staff or seek verification before concluding these costs were allocated on an arbitrary basis. Senior management, based on consultation and identification of employee responsibilities, allocate salary and fringe benefit costs to CIAP which are reviewed annually. Some of the positions questioned have already been modified in the budget submission for the subsequent fiscal year and have been documented as such. In general, fringe benefit costs are allocated in the same manner as

salaries. Due to the limitations in the payroll system, there was incomplete allocation of the employee's share of retirement contributions for positions funded through multiple sources. Upon review by the Authority's independent auditor, this allocation system was found to have no material effect on financial operations. The Authority implemented a new payroll system in July, 1992 which allows allocation of these costs to multiple fund sources.

MAINTENANCE OPERATIONS

SFHA RESPONSE: THE IG CONDUCTS ITS AUDIT WITH A SERIOUS LACK OF KNOWLEDGE AND UNDERSTANDING OF MAINTENANCE OPERATIONS

The Authority questions the auditors' reliance on data obtained from their previous audit eight years ago. Since that time, we have decentralized maintenance operations and have instituted a system to track, by category preference, the assignment and completion of all work orders. The decentralization of our operations included the establishment of mini-warehouses, resulting in a more efficient deployment of manpower and materials. The decentralization, along with a 75 percent increase in our maintenance staff over the past three years is indicative of the Authority's commitment to an improved response to our residents' maintenance needs. The auditors' recommendation would violate jurisdictional lines between crafts which are governed by collective bargaining agreements and are vigorously protected as are prevailing wages, a concept fully supported and enforced by HUD.

The auditors' opinion that maintenance repairs to units were not always performed properly is based on seven examples where maintenance work had to be repeated in the same apartment. Three of these were due to water leakage which the Authority has not ignored but has attempted to fix the problems both in the short term and in the long term. As appropriate, HUD modernization funding has been requested to address this problem at all of these developments.

The Authority's definition of emergency work orders is consistent with HUD's definition. The auditors incorrectly report that all work orders which did not meet the new definition were canceled. Any work orders that were already in the system under the previous definition of emergency remained in the system. Only their classification changed. To meet after hour maintenance needs, the SFHA establishes skeleton crews to be on call to respond to emergencies through a Duty Officer system. The Duty Officer makes determinations based on descriptions provided by tenants or the answering service which can result in dispatching crafts persons for

problems that are not true emergencies. Completion of work orders solely by the call in date is not an effective way to respond to requests. Work orders must be prioritized to insure the most effective and economical use of resources.

COLLECTION OF ADDITIONAL INCOME

SFHA RESPONSE: ADDITIONAL INCOME CITED BY IG WOULD HAVE COME FROM THE POCKETS OF RESIDENTS. THE SFHA OPPOSED SHIFTING CERTAIN EXPENSES FROM THE FEDERAL SUBSIDY TO TENANTS

The auditors concluded that the SFHA does not charge tenants for repair costs attributable to damages caused by tenants or their guests without reviewing tenant accounting records. The SFHA collects little revenue from tenant maintenance charges, in part, because tenants cannot be evicted for non-payment of maintenance charges and because pursuing collections for small amounts through small claims court is not cost-effective. Further, tenants who damage their units are likely to vacate their units without paying these charges. The auditors also noted that the SFHA does not impose late charges for rent payment after the 10th day of the month. There is no reason to believe imposing late charges would reduce the amount of overdue rent owed by tenants.

SFHA does not utilize checkmeters to bill tenants for excess utility charges. Most SFHA developments do not have checkmeters, or have checkmeters which measure only electricity which is not generally used for cooking, heating or hot water. Consumption measured by these check meters is only a small fraction of the total utility use. The cost of monitoring and repairing checkmeters would be greater than the potential revenue from excess utility charges. When used in the past, checkmeters were often vandalized. With check meters removed or absent from many developments, equity issues would be raised if the SFHA were to attempt to impose excess utility charges on the minority of tenants whose units had check meters. SFHA determined that the inspection and repair of checkmeters would not be cost effective and would divert staff resources that would be better utilized addressing maintenance needs of tenants.

PERSONNEL PRACTICES

SFHA RESPONSE: THE SFHA SALARY CLASSIFICATIONS COMPLY WITH COMPARABLE CITY AND COUNTY CLASSIFICATIONS AND WERE REVIEWED BY CCSF CIVIL SERVICE COMMISSION STAFF AND CONSULTANTS

The SFHA primarily uses two methods to classify administrative positions: (1) a combination of recommendations provided by consultants in 1986 and from the Civil Service Commission of the City and County of San Francisco (CCSF) in 1987; and (2) internal benchmark classification for jobs which involve comparable levels of skill and responsibility. In general, the SFHA has tried to identify job classifications in the City and County of San Francisco which are comparable to the Authority's job classifications and base salaries on the annual salary ordinance adopted by the CCSF. In past years the SFHA has used the "whole job method" to determine matches between SFHA and CCSF classifications. Since 1990 the SFHA Personnel Department has prepared a "Factor-based Classification Evaluation" which compares the SFHA classification with three comparable CCSF classifications, using factors such as skill, responsibility, supervision, budget control, and professional qualifications.

The Authority's internal classification approach identifies jobs which involve comparable levels of skill and responsibility and uses them to establish a comparable salary range. For example, the SFHA Unit Manager is the job classification used as an internal benchmark for most SFHA department heads and staff who have similar levels of responsibility, skill, and professional qualifications.

In particular, the auditors' report states that a consultant was hired to perform work which overlapped staff responsibilities. Although the consultant position and the existing SFHA position have the same job classification, the two individuals are responsible for different activities, one for a specific development and one for management improvements. Also, the auditors have questioned the practice of hiring employees at a salary level above Step 1. This occurs because the individual's past experience and salary level justify a higher salary level. Among the employees recently hired above Step 1 are at least four who accepted positions with the SFHA at salary levels that were \$5,000-20,000 below their previous salaries.

TRANSFER OF INADEQUATELY HOUSED RESIDENTS

SFHA RESPONSE: THE IG HAS MISSTATED AND GROSSLY MISINTERPRETED HUD REGULATIONS REGARDING A PHA'S OBLIGATION TO ASSIGN RESIDENTS TO CERTAIN SIZE UNITS

In assigning units to new applicants and to existing transfer applicants, the SFHA follows the guidelines provided by HUD Handbook 7465.1 REV-2 CHG-1 2/91 which states:

The PHA must set reasonable occupancy standards which will assist as many people as possible without overcrowding the unit or the project and which will minimize vacancies. (emphasis added)

Further, in HUD's February, 1992 transmittal regarding changes in the HUD Occupancy Handbook (7465.1 REV-2 CHG-1) HUD makes clear that bedroom size assignment is a matter left to the PHA's discretion based on local needs: "the responsibility of establishing space standards lies with the PHA, HUD has traditionally provided advice and technical assistance to PHAs in this area" (excerpt from the transmittal).

The HUD Handbook clearly indicates that HUD provides only guidelines in the area of bedroom size assignment. However, rather than interpreting the intent of this regulation, the auditors have attempted to tie the SFHA to Section 8 regulations (24 CFR, Part 882, Section 109(c)), which do not apply to the HUD conventional public housing program.

All under-housed and over-housed families were properly housed when they first took occupancy. The SFHA does not deliberately increase occupancy at all costs, but makes the difficult choice of giving emergency waiting list applicants a higher priority in assignment than already housed, but often over-crowded residents. The SFHA does operate a Priority Transfer list which is updated weekly according to residents actually moving or refusing a unit without cause.

**TENANTS SECURITY DEPOSITS AND OTHER
MONIES DUE TENANTS**

**SFHA RESPONSE: THE SFHA PRACTICES ARE FISCALLY PRUDENT AND IN FULL
COMPLIANCE WITH ALL FEDERAL, STATE, AND LOCAL
LAWS AND REGULATIONS**

The auditors' contention that tenant security deposits should be maintained in a separate cash trust fund is not supported by law or regulation, nor is it consistent with sound fiscal management practices. The Authority properly accounts for and is fully able to cover security deposits and monies due its tenants. It is not reasonable or necessary for the SFHA to maintain cash balances on hand to cover all tenant security deposits. It is inconceivable that 100 percent of the tenants of all of our public housing developments would vacate their units and be entitled to receive a refund of their security deposits at the same time. The SFHA maintains sufficient cash on hand to cover reasonable expectations regarding the number of security deposit refunds that will be paid at any given time. The Authority has accounted for all assets, disclosed the liability in its entirety, consistently provided a positive cash flow, and has invested those funds prudently.

The auditors' statement that the low-rent general operating fund balance was only \$529,621 as of March 31, 1992 is correct. However, the statement that the investment account "only had a \$150,000 balance" is inaccurate. One of ten investment accounts maintained by this Authority had a balance of \$150,000. The auditors failed to report on the other nine. Also, the auditors failed to account for outstanding receivables from HUD.

**UNNECESSARY AND UNREASONABLE USE OF
PROJECT OPERATING FUNDS**

**SFHA RESPONSE: THE IG FOUND NO EXPENSES UNALLOWABLE OR NOT IN
COMPLIANCE WITH RULES AND REGULATIONS**

The auditors have characterized expenditures totalling \$144,781 over a three year period as unnecessary and unreasonable. About one-half of the expenses relate to the location and security expenses of the eligibility office located to better serve poverty impacted households, who for the most part are in desperate circumstances seeking housing assistance. That office's location and security costs are an essential component of an effective operation of an agency committed to meeting the needs of low income family and elderly households.

Administrative leave for professional level employees who frequently work extraordinarily long hours is appropriate and is justifiably part of local management discretion. The new Administrative leave policy of the SFHA was developed in consultation with the City/County Employee Relations Division. The SFHA believes that for any executive compensation package it is not individual items but the package which needs to be viewed with respect to comparability. When the Executive Director's package is viewed in this manner it reflects comparability requirements. Travel incurred on behalf of a nationally recognized Congressional Commission on public housing is more than appropriate and was attended not only by the Executive Director but the other "uncompensated" members giving their time to this Commission. The SFHA acknowledges that \$2,868 remains uncollected from employees who incurred parking tickets or long-distance phone charges. The SFHA agrees that it should be more rigorous in the future in pursuing reimbursements.

UNALLOWABLE ENTERTAINMENT COSTS

SFHA RESPONSE: IG INCORRECTLY CONTENDS FUNDS FOR TENANT ACTIVITIES ARE UNALLOWABLE. HUD REGULATIONS ENCOURAGE SUCH ACTIVITIES

More than two thirds of the items characterized as "unallowable entertainment expenses" were for tenant events, including Christmas and Halloween parties for children who reside in public housing, Christmas parties for the elderly, refreshments for neighborhood clean-ups, bus transportation for tenant field trips and baseball gloves for resident youths. The Authority strongly disagrees that these costs are unallowable since they encourage resident participation at important community events as well as offer some holiday joy for our children and seniors whose limited incomes provide little opportunity for celebration. We strongly defend these modest expenditures on behalf of our tenant organizations.

The auditors have also included in this category of "unallowable costs," the costs for two of the Authority's annual picnics, and one Christmas breakfast for employees. It is the Authority's position that such events are important in maintaining and improving employer-employee relations and employee morale, and as such are authorized under OMB Circular A-87. These costs should more appropriately be considered "Employee Morale, Health and Welfare Costs," which are allowable costs under federal guidelines. Time off for employees for preparing for Authority events (as described above) is part of the Authority's recognition of the value of these events, are considered appropriate and are more than compensated by the immeasurable impact on employee morale and performance. Of the \$53,059 cited in the report the Authority believes about \$1,628 for legitimate business costs should be covered by a source other than the Low-Rent Operating Budget and will be charged accordingly.

UNCLAIMED TENANT FUNDS

SFHA RESPONSE: SFHA BELIEVES IT IS IN COMPLIANCE WITH STATE UNCLAIMED FUNDS REQUIREMENTS

The methodology used by the auditors to determine a \$89,179 liability to the State of California is seriously flawed. The Authority maintains that it is not liable to the State of California for this amount but rather the credit balances should have been applied toward additional maintenance charges and/or costs associated with cleaning the unit after the tenants vacate. Staff will seek in-house legal counsel to review the state requirements and to provide legal consultation on the applicability of the State law.

The State of California's Unclaimed Property Law, Code of Civil Procedure, Article 6, Section 1576, also states that any person who "willfully" fails to render any report will be fined but not more than two thousand dollars (\$2,000.00). The auditors' claim that the Authority willfully or intentionally failed to comply with this law is unsubstantiated.

PROCUREMENT PRACTICES

SFHA RESPONSE: THE SFHA CONDUCTS ITS PROCUREMENT PROGRAM IN FULL COMPLIANCE WITH LAWS, REGULATIONS, AND REQUIRED PRACTICES

The audit report reflects a serious misunderstanding of the role of contract monitors, the contract management process and other critical aspects of procurement administration. Contract monitors are common and reflect the need to provide technical control and oversight of contractor performance. These monitors provide services which are in addition to those responsibilities of the Finance Department and Materials Management Unit. In fact, HUD's own process follows this model for major contracts with the assignment of the Government Technical Reviewer (GTR) and the Government Technical Monitor (GTM). Examples cited in the audit regarding contract management by the auditors actually provide examples in which the contract monitor assisted in assuring proper control over contract expenditures. In the audit specific examples of problems are cited for which the Authority has provided adequate explanations for each (see full responses on security services, appliance contractor performance, law firm, standby asbestos consultant and appliance repairs). The auditors also provided examples where they felt the Authority did not document price quotes and the Authority has provided documentation for each of the examples cited by the auditors.

It is noted that the Authority does not maintain a list of all sole source suppliers however, there is no federal requirement for the maintenance of such a list and the auditors did not identify any cases in which sole source procurement was conducted without justification. As for contract management, the auditors indicate the Authority does not provide sufficient control over contract management and expenditures. It appears the auditors only reviewed the contract register which provides a simple and concise listing of contracts with information providing a quick reference to the contract log. The contract log is a complete folder for each contract and includes information that exceeds HUD Handbook requirements (see HUD 7510.1 and HUD 7511.1). The contract log includes copies of Commission resolutions, contract documents, change orders, purchase requisitions, accounting information, payment history, total contact amount, etc.

The SFHA has in the past three years revised and re-vamped its contract management and record keeping system, developed a comprehensive procurement policy and procedures manual and outlined on-going improvements in the area of procurement, inventory management and contract administration. It is these improvement efforts which clearly reflect both the commitment and progress made by the SFHA but never acknowledged by the auditors.

COMPENSATION TO SFHA'S BOARD OF COMMISSIONERS

SFHA RESPONSE: IG IGNORED HUD REGULATIONS AND FAILED TO CONSIDER CALIFORNIA STATE LAW ON PER DIEM PAYMENTS AND EXPENSES FOR COMMISSIONERS

The payments to members of the Board of Commissioners are allowable under California State Law and HUD requirements and conform to commission practices in the City and County of San Francisco. These payments do not require HUD approval. The auditors failed to recognize the distinction in both California State Law and HUD regulations between compensation for services and per diem payments and expenses. The California Health and Safety Code - Section 34274 entitled Per Diem Payments; Expenses; states, "...a commissioner shall not be regularly employed by the Authority to which he is appointed during his tenure of office, but may receive per diem payment for attendance at not more than four meetings per month of the Authority, which shall not exceed \$50 per day, and shall receive necessary traveling and subsistence expenses incurred in the discharge of his duties."

HUD has a similar rule to the above that compensation for Board Member services are unallowable however, travel and related expenses are permitted. There is no requirement in the HUD rule which states per diem payments and expenses paid to Commissioners require HUD approval. Therefore, the Authority practices are allowable, provided for under law and are appropriate since they are consistent with local practice.

ADMINISTRATIVE STAFF

SFHA RESPONSE: HUD SETS NO STANDARDS FOR RATIOS OF ADMINISTRATIVE EMPLOYEES TO UNITS. THE SFHA'S RATIO IS APPROPRIATE FOR LOCAL NEEDS AND CONDITION, AND IS APPROVED BY HUD ANNUALLY

HUD has no binding standards for ratios of administrative employees to units. The IG has based its findings that the SFHA is over staffed on internal HUD guidelines for HUD Field staff, not a regulation that binds the Authority. The SFHA staff-to-units ratio is appropriate for local needs and has consistently received HUD approval.

The auditors based their finding on the SFHA's operating budget, rather than actual staffing levels, which further distorts reality. Vacant positions are incorporated into the budget to provide for additional staff needs throughout the year. The inclusion of vacant positions does not require full justification at the time of budget preparation. However, filling a vacant position does require justification by the department head making the request regardless of funding source. Actual staffing levels have been on the average fifteen percent below budget for the last five years.

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PHMAP

SFHA RESPONSE: DOCUMENTATION CONFIRMS SFHA OFFICIALS PROVIDED AN ACCURATE, DOCUMENTED, FACTUALLY CORRECT PHMAP CERTIFICATION FOR FISCAL YEAR 1991. THE IG HAS FAILED TO SUBSTANTIATE ITS CONTENTION TO THE CONTRARY

The Authority strongly disagrees with this finding. The Authority's assessment of its fiscal year 1991 performance with respect to the Public Housing Management Assessment Program (PHMAP), and HUD's confirmation of that assessment and resultant de-designation of the Authority as a "troubled" PHA was correct, factually based, and completely appropriate as the information which follows will document.

INDICATOR 1 -- VACANCY NUMBER AND PERCENTAGE

The San Francisco Housing Authority has conducted a unit-by-unit analysis of apartments occupied, vacated, and re-rented, through the entire 1991 fiscal year. On the basis of a total tally of all rent billings for each month of the fiscal year (information available to the IG but not used) minus ALL occupancy related rent credits given during the period (not merely samples used by the IG), the Authority confirms that its average occupancy level for the period was 98 percent.

The Authority claimed a "B" rating (vacancy rate of two percent or less) in its PHMAP certification submitted to HUD on January 24, 1992. In the IG's opinion, it should have claimed a lower score. The IG claims to have uncovered evidence that the vacancy rate was actually between one and two percent higher. Thus, it concluded, the Authority did not report all its vacancies and "MAY (our emphasis) have scored itself higher than warranted."

The IG apparently misinterpreted the Authority's statement that "... if counted, the leased but-not-available units would only boost the vacancy rate from one to two percent." This meant the Authority's vacancy rate would increase from one percent to two percent, not as the IG states a "one to two percent increase (our underline) in its vacancy rate."

Had the IG investigated more fully it would have discovered the following:

1. The Authority's original determination of its PHMAP vacancy rate was based upon an interpretation of the definition of the date upon which a vacant unit is removed from the vacant list and placed on the occupied list. Employing an industry-wide practice the Authority considered a unit "occupied" as of the date it was leased to a new tenant. HUD took exception to this definition claiming that a more appropriate date was the date upon which the tenant actually occupied. After much discussion, the Authority acquiesced and reluctantly agreed to a reduction of its score in this category from a "B" to "C." The resulting loss of score points was 4.5 or three percent of our original total, hardly the "significantly lower score" the IG claims in its finding we were trying to avoid. In fact, in a May 27 letter the Authority advised

HUD that the definitional change would result in an "increase" in the vacancy rate of less than .5 percent. Even more disturbing is the fact that the IG either didn't know or didn't acknowledge that the Authority exchanged a series of letters and conversations with HUD in which this issue was fully and openly reviewed. So, what the IG characterizes as a "discovery" of inappropriate behavior by the Authority turns out to be nothing more than a substantiation of actions already taken by the Authority and HUD and fully documented. Since the IG did not communicate its interest in this matter to anyone at the Authority no one here knew to offer the documentation and the IG did not ask.

2. The Authority is able to fully document its vacancy rate for the entire period, using both definitions of occupancy date. Using the HUD definition of a vacant unit, the Authority counted the number of rent statements generated each month during the period as the actual number of units occupied. The total number of rent credits issued each month was subtracted from the number of rent bills generated to determine the net occupancy for the month. The occupancy percentage was calculated by dividing the total units available for occupancy (excluding units in formal modernization) by the net occupancy number. The monthly totals were then averaged. For the first half of the fiscal year, the occupancy level averaged 98 percent. The second half average was 99 percent.

It is particularly interesting to note that even when the more conservative definition of the occupancy date is applied, the Authority's occupancy level was 98 percent during the reporting period and is 99 percent today, up from 89 percent in 1989. This represents a nearly 70 percent decrease in the Authority's actual vacancies over the three-year period, which, on its own, qualifies for a grade "C" rating. This significant accomplishment is not even mentioned by the IG. The IG also does not mention the long list of motives for eliminating an unconscionably high vacancy rate such as a desire to meet the critical housing needs of hundreds of additional families, or the importance of increasing operating revenue by more than \$1 million annually, or the desire to respond to the needs of hundreds of families currently in occupancy who were daily in jeopardy because they lived next to vacant units, or the intention to reduce drug trafficking and related crimes by eliminating the vacant units which housed such activities. Most egregious of all is the IG's failure to concede as a motive the HUD Secretary's relentless criticism of the high rate of vacancies around the country and his merciless pursuit of sanctions against PHA's with high vacancies. For all the above reasons, this Authority is proud of its accomplishments in this arena and not even the imagination of the IG can diminish that accomplishment.

INDICATOR 3 - UNCOLLECTED RENTS

The IG contends that the Authority miscalculated its uncollected rent and overstated its score on this indicator and the IG recommends a reduction in that score. The SFHA had reported rents to be collected during the 1990-91 fiscal year as \$15.3 million, while the auditors indicated that the figure should be \$15.9 million. The figure used by the auditors represents the

total of rents charged the first of the month. The figure used by the SFHA includes adjustments to reflect rent credits provided to tenants (including credits for delays in completing maintenance repairs), rent adjustments to reflect reductions in tenant income as reported at annual re-examinations, partial rent charges for units occupied during a month, and unpaid rent balances transferred to vacated accounts for tenants who moved out during the fiscal year.

When the SFHA compiled the PHMAP self-assessment, the regulations were interpreted to require a calculation based on rents uncollected from tenants in possession. The SFHA's assessment was based on this interpretation. Subsequently, HUD published the PHMAP Handbook 7460.5 which significantly changed the methodology. The handbook indicates that this measure must also include uncollected rent from tenants who vacated their units during the fiscal year, but whose balances were not written off prior to the end of the fiscal year. The handbook also clarifies charges that may be excluded from the calculation of uncollected rents.

Based upon the directions provided by the PHMAP Handbook, we have revised our calculation. When the appropriate adjustments to rent charges are considered, the correct amount that should be used for dwelling rent charge is \$15,679,236. (This is the amount reported to HUD on the Authority's Statement of Operating Receipts and Expenditures for the 1990-91 fiscal year.) From this amount, based on the PHMAP Handbook, retroactive rent charges (\$17,104) should be excluded. The adjusted amount of current dwelling rents charged to residents, as defined by PHMAP, is \$15,662,132. Using the calculations prescribed by the Handbook, and including vacated accounts that had been excluded from the SFHA's original calculation, the new methodology still results in a grade C, based on uncollected rents equal to 5.79%.

We continue to believe it is appropriate to count amounts held in escrow as rent collected as of the end of the fiscal year. These are funds we have received from tenants who are under eviction proceedings. Generally these funds are ultimately credited to tenant accounts to pay off delinquent rent balances or as part of a stipulated repayment agreement prior to eviction. As of the end of the fiscal year, these are funds that have been collected from tenants, but held in a separate account for legal reasons. (Our revised methodology accounts for these funds by using the higher figure suggested by the auditors for uncollected balance as of 9/30/90, and instead includes funds held in escrow as of September 30, 1991 in the total collections for the 1990-91 fiscal year.)

INDICATOR 5 – VACANT UNIT TURNAROUND

The IG claims that we should have received a grade "F" or no score because we have no system for tracking vacancy turnaround and we cannot demonstrate that vacancies were re-rented during the period in 50 days or less on average. In the fiscal year 1991, the Authority turned around its vacant units in an average of 29 days. This information is verified by the analysis outlined in Indicator 1 above, and qualifies it for a grade "C."

The Authority initially claimed a grade "A" using the information based upon its original definition of the occupancy date as described in Indicator 1 above. When that definition was challenged by HUD and its recommended definition adopted, the Authority revised its PHMAP submission re-grading itself from "A" to "C."

The following points call into question the validity of the IG conclusions in this area:

- The IG mistakenly assumed that the Authority did not have a system in place for tracking the duration of its vacancies. This is not so. The Authority used a manual system for tracking vacancy duration during Fiscal Year 1991 which was described to HUD in detail in our March 20, 1992 correspondence and which the HUD confirmatory review so certified.
- The IG selected the sample on a subjective "auditor's discretion" basis and not a random basis. Thus, conclusions about the general universe cannot be drawn as they were not objectively based.
- The IG claims that 44 of 198 units (which became vacant during the last quarter of fiscal year 1991) vary in turnaround time by as much as 45 days from our report. Our analysis of all 198 units indicate a turnaround time of 26.5 days.
- The Authority's analysis included a count of EVERY unit and EVERY rent credit for the entire 1991 fiscal year, not merely a sample. Consequently, our information is far more accurate and reliable and not tainted by selective sampling.
- The IG cites five examples in which the auditor's calculations of turnaround days differed from the Authority's. Only one was correct and appropriate for use in the 1991 assessment. Four of the units should not have been included because the lease dates and/or make ready dates were not in the fiscal year of the PHMAP review. Of those four, the IG had incorrectly calculated turnover on two.
- Throughout, it has been assumed by the IG that the existence of a rent credit is prima facie evidence that the tenant did not occupy the unit on or about the effective date of the lease. No further effort was made by the IG to verify the actual occupancy dates though a few field visits might have provided that missing verification. In fact, only 25 percent of the rent credits granted during the period specifically identified inability of the tenant to occupy as the reason for the credit. The remainder cited delays in delivery of appliances or delayed completion of minor repairs as the basis for the credits. The IG had eight months in which to verify its information, the Authority has had less than three weeks. The Authority contacted 62 of the 487 who received rent credits during the period and determined that 35 percent occupied on the date specified and received credits for reasons other than the inability to occupy. Consequently, not all rent credits should be counted against vacancy turnaround, however, in our analysis we have

assumed all rent credits as signifying inability to occupy. Even when all credits are so classified, the result of our analysis is correct and a grade "C" is appropriate.

INDICATOR 7 – ANNUAL INSPECTIONS

Component 1: System to Track Inspection and Repair of Units and Systems

The IG states they noted no system in place to track inspections and repairs of units and that a Grade F should be given for this component. The SFHA disagrees with this assessment and maintains that the Grade A should stand for this component. The issue of whether the SFHA had a system in place to track inspections was also a concern expressed by HUD during the PHMAP confirmatory review. The SFHA satisfactorily addressed this concern in detail in our March 20, 1992 submittal to HUD, however, it appears the IG failed to review this submittal.

Another shortcoming of our current computer system was in the tracking of inspections. Our computer did not provide data on scheduled versus actual inspections, and work orders generated to correct unit deficiencies noted during inspections were not distinguishable from all other work orders. As a result, a manual system was used for tracking the completion of annual inspections. **The PHMAP rule does not require that the "system" for tracking inspections be an automated one. This interpretation was confirmed by HUD Headquarters.**

During the current fiscal year, many improvements have been made to our system of tracking inspections. The SFHA's self assessment describes those improvements which now allow us to automate our manual system of tracking unit inspections as well as work orders to correct deficiencies noted as a result of those unit inspections. Currently, work orders generated from inspections are coded according to the established priorities used to identify the type of work orders. Inspection work orders are preceded only by emergency and vacate work orders and are coded and tracked separate from other work orders.

Component 2: Annual Inspection of Units

100 percent of Units Inspected. The IG claims that the SFHA did not inspect 100 percent of its units in 1991 using standards that were at least equivalent to HQS. The SFHA recently conducted a comprehensive review of its inspection documentation and accepts the IG's assessment in that the SFHA could not verify, based on the documentation submitted, that 100 percent of the units had been inspected in Fiscal Year 1991. At the time of the PHMAP self assessment and HUD confirmatory review, the SFHA relied on reports from field sources which asserted 100 percent completion of inspections. To verify this information, the Authority required a file by file review to actually ascertain the presence of a unit inspection report.

Verification of 100 percent completion could not be ascertained. The Authority believes its PHMAP score should be reduced by 6.25 points, not 7.5 points as the IG suggests.

INDICATOR 9 -- OPERATING RESERVES

A thorough analysis of the reserve account confirms that the SFHA should maintain a Grade "A" for this indicator. The Authority disagrees with the IG that a Grade F should be given for this indicator. The IG contends we could not provide acceptable documentation to support the \$7,820,379 in reported operating reserves. The IG states that the SFHA's financial records did not include a \$7,820,379 operating reserve balance as of September 30, 1991. However, HUD Form 52599, Statement of Operating Receipts and Expenditures, dated March 20, 1992 for the period ending September 30, 1991, Line 790, shows an Operating Reserve balance of \$7,820,379.

The PHMAP Handbook (7460.5) worksheet indicates that the HUD Form 52599 is the source to use for reporting this indicator. The Handbook also indicates that, "a PHA shall receive a presumptive score for this indicator that does not include year-end adjustments" (page 6-39).

The SFHA's independent audit for the fiscal year ending September 30, 1990 was completed after the PHMAP assessment, and results in some minor adjustments to the Operating Reserve level. Also, HUD has approved year-end PFS adjustments which increase the reserve level. Below is a revised computation of the Operating Reserve as of September 30, 1991 to reflect subsequent audit adjustments and PFS adjustments approved by HUD.

Audited Operating Reserve Balance 9/30/90	\$5,956,178
Adjustments for Liabilities Posted for Audit Purposes Only:	
Eliminate liability for accrued leave ¹	+ 881,081
Eliminate write-off of tenant accounts ²	+ <u>756,691</u>
	\$1,637,722
ADJUSTED OPERATING RESERVE AS OF 9/30/90	\$7,593,950
RESIDUAL RECEIPTS FOR FY 1990/91	+ 6,489
ADD FY 88/89 PFS ADJUSTMENT	+ 4,282
ADD FY 90/91 PFS ADJUSTMENT	+ <u>270,067</u>
OPERATING RESERVE BALANCE AS OF 9/30/91	\$7,874,788
LESS TARS	<u>- 1,127,670</u>
NET OPERATING RESERVE	\$6,747,118
MAXIMUM OPERATING RESERVE FY 1991/92	\$16,621,615
9/30/91 OPERATING RESERVE AS PERCENT OF 91/92 MAXIMUM	40.6%

¹ **ACCruED ANNUAL LEAVE.** The auditors posted as a liability to the general fund operating reserve the value of all accrued leave balances (sick leave and vacation). This is inappropriate for two major reasons. First, payments to terminating employees for accrued vested leave is budgeted as an expenditure on an annual basis. Generally the costs for terminal leave payments are also offset by salary savings associated with the lag in replacing the terminated employee and/or the lower salary that is paid to the new employee. Vacation and sick leave benefits for current employees (who are generally not replaced during leave) do not result in any increased or unbudgeted costs for the Authority .

Secondly, the auditors posted this liability against the general fund budget for the low-rent conventional housing program. However, for a significant number of employees, the low-rent program does not support 100 percent of their salaries, and would not incur the full costs associated with terminal leave payments. If this liability is to be recognized at all, it should be allocated to these other fund sources in the same percentages as the salary allocations for these employees.

² **WRITE-OFF OF UNCOLLECTIBLE TENANT ACCOUNTS.** HUD regulations and SFHA policies prevent the write-off of tenant accounts as recommended by the auditors. The write-off of tenant accounts requires action by the SFHA Commission, after a designated period of inactivity. HUD regulations allow us to write off only vacated accounts. HUD reporting requirements do recognize that all tenant accounts receivable may not be collectible. In fact, we are required to reduce all TARS from the Operating Reserve for purposes of evaluating the adequacy of reserve levels. Because all TARS are recognized in this reporting requirement, it is inappropriate for the auditors to recommend this write-off be reflected in our reserve level.

The IG's description of the SFHA's reserve balance is not accurate or complete. The IG failed to consider investments, outstanding receivables, inventories, or other components of the SFHA's reserve balance. There is no section in the ACC that requires a local authority to maintain the full amount of its reserves in the General Fund. In fact, Section 401 of the Annual Contributions Contract, (E) states:

" if any time the Local Authority has monies on deposit in the General Fund in excess of its prudently estimated needs for the next ninety days, such excess monies shall be invested in investment securities selected by the Local Authority and approved by the PHA" the ACC requires PHAs to make prudent investments of funds in excess operating requirements.

The SFHA has made and continues to make such prudent investments of its excess funds.

In so much as the IG suggests that the SFHA could not account for tenant's security deposits, we strongly refute the IG conclusion. Please refer to our response to finding # 3. Also, the ACC Article IV Section 401 (D) allows a local authority to borrow from the general fund as long as it is used for: (1) payment of development costs, (2) payment of Operating Expenditures, (3) the purchase of investment securities as approved by the PHA, (4) other purposes specified in this Contract (5) other purposes specifically approved by the PHA.

INDICATOR 12 – DEVELOPMENT

This performance indicator assessed the SFHA's administration of the Robert B. Pitts Plaza new construction. When the SFHA received the notification from HUD on our PHMAP rating, the score for the development indicator had been reduced in the areas of contract administration, timeliness of development, and budget controls. We disagreed with the rating then, but chose not to appeal based on the overall PHMAP rating as a standard PHA. On June 1, 1992, we requested HUD provide us with the basis for the reduced score since the notification letter provided no explanation. The letter of explanation arrived July 31, 1992, two months later. The IG acknowledges that the HUD Office gave the SFHA a lower score on this indicator because of problems in developing Robert B. Pitts Plaza, however, they did not review this indicator.

The SFHA maintains that its performance in this area warrants a passing grade by HUD.

BOOKS OF ACCOUNTS, RECORDS, AND ACCOUNTING
INTERNAL CONTROLS**SFHA RESPONSE: SFHA MEETS ACCEPTABLE PERFORMANCE STANDARDS AS
CONFIRMED BY THE AUTHORITY'S MOST RECENT
INDEPENDENT AUDIT**

The SFHA has made great progress in recent years in overcoming significant and longstanding weaknesses in its accounting and financial management systems. This has required great effort because of factors which include (1) the dramatic increase in the number of financial transactions during the past three years (attributable to major expansion in modernization and rehabilitation activities, Section 8 programs, etc.); (2) limitations imposed by the Authority's obsolete and inadequate computer system; and (3) the backlog of prior years' poor accounting practices and procedures which required correction. While there is room for improvement, the Authority's current practices and procedures are adequate.

The IG auditors have failed to provide evidence to support their assertion that the accounting deficiencies identified (1) represent a serious breach of the SFHA's commitment to operate its low-income conventional housing program in an efficient, economical, and effective manner; (2) are attributable to SFHA management's inadequate oversight and the accounting staff's lack of knowledge of HUD requirements and generally accepted accounting practices; and (3) are indicative of a serious lack of responsible and knowledgeable program management and comprehension of generally accepted accounting procedures.

Weaknesses identified by the IG auditors exist with regard to delays in posting books and accounts. There is also a need for more diligence in reconciling interfund transactions. These problems have been identified by the Authority's most recent independent audit, and the Authority is taking steps to improve its performance in these areas. In some cases the IG auditors have identified minor errors or inconsistencies that are not materially significant, and are well within acceptable performance standards for an agency responsible for processing the number of transactions made by the SFHA.

Funds Shifted Between Programs. The auditors have characterized the Authority's practice of loaning funds between programs, with full accounting for interfund amounts payable or receivable, as inappropriate shifts of funds between programs. We disagree with this judgement. The Authority's practice of interfund borrowing, which is reflected by interfund receivables and payables which are fully disclosed, does not constitute a shift or transfer of funds. Interfund borrowing, particularly between Section 8 Operating Reserves, Conventional Housing funds, and/or modernization funds is a common practice by Public Housing Authorities, and is recognized as such by HUD. For example, Section 401 (D) of the Annual Contributions Contract (ACC) refers to "monies borrowed" from the general fund to pay development costs.

The current reimbursement method of funding modernization and CDBG modernization and development activities virtually requires PHAs to utilize interfund borrowing as a means to undertake modernization and development activities, pending reimbursement by HUD or other funding sources for these expenses. If we were unable to utilize interfund borrowing to meet the cash flow demands associated with the very high level of modernization and development activity underway at the San Francisco Housing Authority, we would be forced to curtail these activities, to the severe detriment to public housing residents.

Similarly, the Authority uses funds advanced from its general fund (low rent operating budget) to its Revolving Fund to cover its day to day expenditures such as payroll, which are later reimbursed from the appropriate fund source at the time costs are recorded in the General Ledger. Generally these reimbursements to the Revolving Fund are made monthly when charges are booked to the appropriate funds. When funding is provided to the Authority on a reimbursement basis for costs advanced by the Authority, an interfund payable and receivable are recorded pending receipt of reimbursement.

The temporary advances made in August 1991 from the Section 8 fund to the low-rent fund were properly recorded as an interfund payable/receivable.

Account and Interfund Reconciliations. We acknowledge that account and interfund reconciliations have not always been completed as promptly as they should be. This is primarily the result of vacancies and turnover in staff assigned to this responsibility. The Authority is currently attempting to fill two vacant Finance staff positions, including the position responsible

for completing bank reconciliations. As a result, bank reconciliations are sometimes several months behind schedule. The Authority plans to correct this problem within the next 90 days.

The Authority's policy with regard to outstanding checks has been to recognize these checks as part of the bank reconciliation process, and to write off outstanding checks once a year on the basis of recommendations by the independent auditors. The IG auditors were provided documentation regarding write-offs which were made based on the most recently completed independent audit.

Interfund reconciliations are prepared and reviewed on a monthly basis by SFHA staff as a pre-requisite for monthly General Ledger closing. Account reconciliations are done annually in conjunction with preparation of the annual audit. The most recently completed independent audit recommended that the Authority take a number of steps to improve its interfund accounting and reconciliation process. The Authority is currently recruiting a senior accountant to strengthen its staff capabilities in completing this type of analysis.

The auditors indicate that the SFHA did not consistently pursue reimbursement from the City and County of San Francisco for costs of security services provided at Rosa Parks Development. Although the auditors indicate that they spoke with unnamed staff who were uninformed about the status of this reimbursement, they never spoke with either the Controller or the Deputy Executive Director for Administration and Finance, both of whom were directly involved in repeated efforts to obtain this reimbursement, beginning in August of 1991. While the auditors indicated that unnamed individuals made speculations about the possible reasons these funds had not been received, they never contacted the appropriate staff who could have provided a complete and accurate response to the auditors' questions.

In fact, delays in obtaining reimbursement for these services resulted from staff turnover in the Mayor's Office and technical errors that were made in the Mayor's Office and/or the CCSF Controller's Office. The IG auditors were provided with a complete description of these issues and the significant efforts that were made by the SFHA to obtain reimbursement. The SFHA has now received full payment from the CCSF for services provided during the 1990-91 and 1991-92 fiscal years.

Finally, the auditors noted that some expenses were charged to the Sundry Administrative Cost Account (4190), while reimbursements for these expenses were credited to the Travel Account (4150). This sort of minor inconsistency does not materially effect the Authority's financial records, but efforts will be made to improve the precision of such accounting.

Posting Books of Accounts and Records. We acknowledge that there have been some delays in posting books of accounts and records, and this weakness was noted in a finding

contained in the SFHA's most recent independent audit. This is another area in which efforts will be made to improve performance in the coming year.

The SFHA's automated accounting system produces a General Ledger trial balance report monthly, which is reviewed by the Accounting Supervisor. The books have not been "closed" for fiscal year ending September 30, 1991 because the computer system will not allow re-opening for posting of auditors' adjustments after closing. As a result, we cannot "close" the books until all audit adjustments have been posted.

Internal Controls for Manual Checks. The auditors have been provided documentation which describes the SFHA's internal control procedures for manual checks, and provides justification for the relatively large number of manual checks issued in August 1991. Manual checks are issued under emergency conditions which cannot be accommodated by the SFHA's normal weekly check schedule. Manual checks may be issued subject to approval by the Controller or the Deputy Executive Director for Administration and Finance, and require appropriate documentation, including purchase requisition, invoices or receipts if appropriate, and additional documentation to support the payment request. The most common circumstances which require manual checks include: requests by tenant organizations for funds to support program activities, employee termination (state law requires the SFHA to provide a final paycheck on the last day of work), legal settlements, and travel advances.

Of the checks identified by the auditors as "cashied but not processed", \$709,591 represented amounts paid to the San Francisco Police Department. These costs are funded as a CIAP management improvement, and were included in requisitions for CIAP funds and in quarterly reports submitted to HUD. They had not been posted to the General Ledger because a delay in execution of a final, revised agreement with the San Francisco Police Department resulted in our inability to prepare a purchase order.

A delay of this duration and involving costs of this magnitude is very unusual, but resulted from the Authority's continued (and ultimately successful) efforts to amend its agreement with the police to provide a stronger guarantee that federal funds would be used only for services above and beyond those which public housing residents would otherwise be entitled to receive free of charge. Under these unusual circumstances, the Authority decided it was in the best interests of residents to maintain the level of police services, pending resolution of negotiations regarding the language of the agreement with the Police Department.

The three checks which the auditors identified as having been issued "for the same amount, on the same day, and to the same vendor" were actually checks to the San Francisco Police Department. The record clearly indicated that they were payments covering services which were provided during three different pay periods. Although the auditors report that "the SFHA could not give a valid reason" for the issuance of the three checks, it appears that they

did not speak with any responsible staff person who could have given this reason by reviewing the carbon copies and the attached documentation.

Documentary Support for Disbursements. The disbursements questioned by the auditors were payments for credit card charges and reimbursements to tenants or employees for expenses. In all cases, the SFHA has provided to the auditors copies of complete documentation that was attached to each disbursement voucher. The SFHA strongly disagrees with the auditors' contention that documentation for these disbursements was inadequate. The auditors did not identify any problems with disbursements to vendors. The auditors also failed to identify a single instance in which funds disbursed were not used for their intended purpose.

Books of Accounts and Supporting Individual Accounts. We are in general agreement with the auditors' comments about the inappropriate classification of tenant credit balances in the tenant accounting system. We have begun the process of analyzing tenant accounts to determine whether credit balances should be refunded to tenants or should offset outstanding tenant charges. In some cases our review indicates that a credit may be the result of an incorrect posting of payments that have been made for maintenance or other non-rent charges. To correct this problem, we will be completing an account-by-account review during the next several months.

It does appear that the reporting provided by the SFHA's current computer system combines accounts with delinquent rent balances and those with credit balances, thereby allowing one to offset the other. This has no net effect on the Authority's total Operating Reserve, but does have the unintended effect of understating, by an unknown amount, the portion which is attributable to Tenant Accounts Receivables (TARS). We expect that the new computer system which the Authority plans to acquire in the upcoming fiscal year will classify these credit balances correctly, and we plan to include the tenant accounting component of that system in the first phase of our implementation schedule.

The auditors identified two items which were recorded as Accounts Receivable - Sundry, rather than Accounts Receivable - Employees. This distinction is not material and the dollar amounts involved are not significant.

The auditors identified expenditures totalling \$435 for union initiation fees paid on behalf of two employees. In an effort to assist residents in obtaining employment with the SFHA, we sometimes advance funds for the resident's union initiation fees. These costs are subsequently reimbursed by the employee through payroll deduction or direct payment to the SFHA. However, in the early weeks of a major resident hiring effort in the fall of 1990, it appears that there was a coding error in classifying two such payments. As a result these were not identified as reimbursable expenses. (These expenses have been coded correctly subsequently, and documentation was provided to the auditors.) Now that this error has been brought to our

attention, we have initiated payroll deduction agreements to recover the \$435 from the two resident employees.

As noted in our response to finding #4, the Controller initiated an effort to collect reimbursement from employees for the \$1,049 in parking tickets for SFHA vehicles.

RENT COLLECTION

SFHA RESPONSE: THE SFHA COLLECTS 98 PERCENT OF RENT BILLED EVERY MONTH. THE SFHA COMPLIES WITH ITS RENT COLLECTION POLICY AND HAS IMPLEMENTED APPROPRIATE PROCEDURES TO INCREASE COLLECTION OF CURRENT BILLINGS AND REDUCE TENANT ACCOUNTS RECEIVABLES

The SFHA not only enforces its rent collection procedures but had an 11 percent decrease in Tenants Accounts Receivables (TARs) during this past fiscal year. Rent is an important source of revenue for the SFHA and timely collection is a high priority. The SFHA recognizes that our performance in this area still has room for improvement. The SFHA also recognizes that the process has been lengthened by inadequate staffing in the past and a cumbersome legal system. The SFHA has developed and implemented strategies to reduce TARs by establishing a Rent Collections Department which identifies residents with delinquent accounts and coordinates the resolution of the delinquency. We also conduct credit checks on new applicants through the National Tenant Network which include histories of evictions, lease violations, and poor rent paying habits.

The SFHA has hired additional law clerks, trained property managers on packaging documentation for evictions, developed procedures for executing and monitoring repayment agreements and encouraged residents to participate in the Department of Social Services Modified Payment Program.

The IG selected the records of 75 out of 1,365 residents who were delinquent one month or more in rent payments as of February 13, 1992. More than half of these residents (41) have either paid off the balance due or are now current with repayment agreements. Repayment agreements are being negotiated with two other residents. Looking closely at the IG's own sample, there was a 72 percent reduction in delinquent balances for the 41 residents on repayment plans. Outstanding balances are higher for those residents who were evicted but by maintaining escrow accounts and pursuing wage garnishments, 13 percent of these funds have already been collected. Another 20 percent of the residents in the sample have either been evicted (14) or vacated (1). Judgments or complaints have been issued against four others. There are only 13 still being processed by the Legal Department.

The 75 residents identified by the IG currently owe a total of \$106,892. More than 54 percent of these residents (41) have been paying off delinquent rent balances and each now owe an average of only \$689. The average balances for these same residents was \$2,431 before judgments were issued and/or repayment plans were negotiated. These 41 residents have now repaid a total of \$71,415. Of the balance, the SFHA has been successful in getting judgments. Fourteen residents have been evicted and one vacated prior to the completion of eviction proceedings.

As the IG sample shows, the majority of our residents are paying off their delinquencies. To their credit, residents with delinquencies have actually been able to reduce their balances on average by 72 percent. Repayment of delinquent rent does take time. The average income for SFHA residents is approximately \$9,900 and the majority of those who become delinquent are single mothers with several children. Practically speaking, only modest payments above regular monthly rent can be made. The Authority believes it is unwise to require repayment amounts so high as to make repayment an impossibility.

Property Managers, in accordance with the SFHA Continued Occupancy and Reexamination Policies, initiate eviction processing by referring delinquencies to the Legal Department on a regular basis as residents become delinquent or fail to follow a repayment agreement. Approximately 30 cases are referred to the Legal Department every month. Since the IG review took place over an 8 month period, it is not surprising that 29 of the 75 tenants in the IG sample were referred after the audit started.

The IG states that two residents had filed suits against the Authority for uninhabitable units and were awaiting rent settlements. Almost all legal aid cases assert uninhabitability because that is the only potential defense against nonpayment of rent. Out of over 50 cases that went to trial in the past six months, there have been only two cases where the SFHA decided to write off rent and settle these claims.

The IG criticizes the Authority for lack of evidence in the resident files indicating that rent collection procedures were being followed. This information is not kept in the tenant files. These records are found in the System 38. All resident accounts are monitored monthly; if a resident is past due on their rent, their name is entered into the System 38; the system generates a 14-day notice; if the resident continues to be delinquent, the system generates a three-day notice. If the resident still fails to make a payment of the total amount due, a legal package is prepared by the property manager and the case is referred to the Legal Department where eviction actions begins.

The IG reports that managers had accepted less than the required payment thereby negating collections and eviction action, however, the IG fails to recognize those exceptions where there is a benefit for doing so. Property managers are instructed not to accept rent unless it is the full amount due. However, there are two important exceptions to this rule. The project

managers may enter into a repayment agreement with residents where delinquent rent is repaid over a specified period of time. While this negates legal action, it is by far the most effective way of collecting past due rent. The other exception is for property managers to accept payments into escrow accounts. Residents are encouraged to make payments into an escrow account. These escrow payments ultimately benefit the resident and the SFHA by enabling the resident to pay the arrearage when a repayment plan is established, a complaint is filed, or if eviction takes place.

Partial payments may come through the modified payment plan. The modified payment plan is a program where rent is deducted from an individual's AFDC check and paid directly to the SFHA. This has proven to be less of a hardship for some families on fixed incomes and prevents eviction whenever possible.

Finally, property managers do not have access to the System 38 at each site so they are not immediately able to verify the status of a residents. This may result in accepting payments that are less than the full amount due or accepting payment from a resident who is being evicted. Installation of the Authority's new Management Information System, with access at the sites, will resolve this problem.

The IG criticizes the Authority for untimely action on tenants referred to the Legal Department based on their review of 30 delinquent tenants referred to Legal whose unpaid rent balances totaled \$48,953. The IG is correct that delinquent accounts tend to increase while cases are in the Legal Department. However, the IG fails to acknowledge the bottom line, which is the large amount of delinquent rent that is collected. The 30 residents currently owe \$58,446. Thirteen of the residents have paid off a total of \$31,541. Fifteen other residents have been evicted. Negotiation for repayment is taking place with one of the other residents and the last involves a criminal case that is still in litigation. According to California Law, acceptance of rent after receipt of the eviction notice cancels the notice and voids the eviction action. Thus unless there was an exception made for accepting the rent, delinquent balances would obviously increase until the conclusion of the legal action.

The IG reports that court ordered stipulation agreements were not executed timely and were not enforced. We disagree. The stipulation requires agreement between the SFHA and the resident on the amount to be repaid each month. The negotiation of this agreement takes time; with some stipulation cases, judges specify a 60-day period to negotiate the agreement. Of the seven cases mentioned by the IG, as having to wait up to six months to execute stipulation agreements, one is a criminal case where the SFHA is pursuing eviction, not a stipulation agreement. Two residents were evicted. The four other residents entered into stipulation agreements; two of them have paid the balances due and two are current with their repayments.

The claim that ten tenants did not make any payments during 1991 and the Legal Department did not implement eviction proceedings is inaccurate. Five of the ten residents cited by the IG have been evicted. The other residents, while not making "rent" payments during litigation were making payments into escrow accounts. Four other residents are current on repayment plans and litigation has not been concluded on the fifth resident. The auditors failed to recognize escrow payments for those residents in legal eviction processing.

The Legal Department is timely in its actions on residents with delinquent rents. Any delays in processing are more a reflection of factors beyond the SFHA's Legal Department's control, such as filing of Unlawful Detainers at Municipal Court, extensions for legal aid assistance for residents, obtaining court dates, and other issues related to our legal system. The Authority has, in fact, reduced the time frame it takes to process an eviction and has substantially increased the number of eviction actions being processed. For example, during the quarter ending December 31, 1991, there were 97 complaints filed, while during the March 30, 1992 quarter, 150 complaints were filed. During the first six months of the current fiscal year, the SFHA completed 60 evictions. The hiring of two additional Legal Clerks has assisted the Authority in this effort.

As a practice, the Rent Collections Manager reviews all vacate reports and makes assessment of the feasibility of obtaining a collectible judgment. The Legal Department would rather reach an out of court repayment settlement and seek court action only if this attempt is unsuccessful. The Quarterly Report of the Legal Department dated July 23, 1992 indicates that during the preceding quarter the SFHA received four such judgments from vacated residents.

Wage garnishments have also been initiated. Prior to 1990, the post-eviction collection of the amounts awarded in Judgments was almost non-existent. In mid-1990, the SFHA initiated wage garnishments in cases where we were able to determine where the former resident was employed. To date, we have obtained several garnishments and have many more in progress. The TAR manager has recently set up a system of giving employment information to the Legal Department for garnishment processing. The SFHA is now collecting \$15,925 through wage garnishments. Requests are pending in court or are being prepared for court for an additional \$16,881.

The IG claim that the Legal Department did not enforce court ordered stipulation agreements is incorrect. For 49 of the 55 agreements cited by the IG, the SFHA has collected \$94,240. A total of \$33,975 was collected from the 20 residents whose old agreements were canceled and \$60,265 from the residents where the IG claims there was no follow-up.

While the IG reports that 20 stipulation agreements were canceled because they were unenforceable, they fail to give the full picture and status of these accounts. Shortly after cancellation of expiring stipulation agreements, nine residents paid the balances remaining or entered into repayment agreements with the SFHA. New legal action was initiated for eight of

the residents. An additional three residents vacated their units and wage garnishments are being pursued. The names of those residents who vacated are also being turned over to the National Tenant Network as an additional incentive for them to pay off any outstanding balances.

The SFHA initiated the use of a new stipulation form in April 1990 which states that the agreement does not terminate until the account is paid off. About a year later, the SFHA canceled all of the old stipulations which had expired by their own terms. While this caused some temporary inconvenience for the managers, it assured that all of our stipulations are now enforceable until the original delinquency is fully paid off.

The Authority disagrees with the IG that 29 residents had not complied with their stipulation agreements and had not been evicted. Currently, these 29 individuals owe \$38,562. Fifty-five percent of this balance is owed by the seven residents who were evicted. Twenty-two residents, those who have active stipulation agreements, have either been paid off or are current. The total balance remaining for these 22 residents is \$17,266 or an average of \$785 each. These same residents have paid back \$53,973 in delinquent rents. Even those residents who were evicted paid \$6,292 in past due rent. In short, the SFHA has actually collected a total of \$60,265 from these agreements.

The IG finding claiming favoritism or reluctance to collect overdue rent on resident/employee rent balances is grossly misstated. The IG report ignores the fact that 91 percent of resident employees are either current, repaying regularly or are within one month of being current on rent. More significantly, the audit ignores the actions taken by the SFHA to collect overdue rent from resident employees and fails to recognize the success of these actions. The Authority's commitment to this effort is illustrated in the February 13, 1991, letter sent to all resident employees outlining the increased responsibility of resident employees in rent payments.

The IG claim that the SFHA allows resident employees to vacate with balances due is untrue. The agency has had three recent cases of resident employees vacating with rent balances. One reached an out of court settlement and paid off the balance and the SFHA received court judgments against the other two.

It is correct that a SFHA employee who is a former commissioner has entered into an agreement to repay a large debt at a rate of \$49 plus rent monthly. We believe that the agreement is appropriate and in the best interest of the SFHA. What the audit fails to mention was that the \$49 payment brings this resident's monthly rent payment to \$850, and that the agreement is secured by a payroll deduction of \$425 twice per month.

Further, there is no basis for the finding on the balance of an "outspoken (critic)" of the agency. By the auditor's own admission, the delinquency is related to the ongoing court action,

which precludes the agency from collecting rent. The auditors were made aware of the negotiation settlement discussions between attorneys representing the SFHA and the resident.

The issue regarding non-payment of rent by a current Commissioner is accurate. The SFHA is working closely with this resident with the goal of collecting current and arrearage amounts.

Appendix 1 of the finding purports to document the "haphazard collection activities" of the Authority. Instead, the letter documents problems with the rent collection efforts of one property manager at one development on three rent cases. The letter was sent by the Assistant Legal Counsel after discussions with the Assistant Director for Conventional Housing to work toward correcting the problem and creating documentation for possible employee disciplinary action if the corrective action was not achieved. This hardly constitutes an indictment of the Authority's entire rent collection and enforcement effort and the results (98% average monthly collection) say just the opposite. There is simply no basis for this finding.

HOUSING QUALITY STANDARDS

SFHA RESPONSE: THE IG'S FINDING IS BASED UPON SERIOUSLY FLAWED INSPECTIONS OF ONLY 1.5 PERCENT OF THE AUTHORITY'S UNITS.

The IG inspected only 103 apartments. A sample of 1.5 percent is insufficient for use as a measurement of apartment condition in a housing authority of this size. The SFHA inspected the same units inspected by HUD's construction appraiser (working for the IG), and arrived at significantly different findings. SFHA inspections found 36 percent of units without HQS violations (three times the number determined by the IG), and nearly two thirds of the units with two deficiencies or less. In total, SFHA inspections found 257 deficiencies, 41 percent fewer than the HUD appraiser.

This appears to be due to the appraiser's lack of familiarity with the application of HQS to conventional housing. HQS is a standard which has traditionally applied only to the Section 8 Program, a program with three times the subsidy level of conventional public housing. An example of this unfamiliarity is indicated by the degree of deficiencies cited in the Site and Neighborhood category, a category which is misapplied to conventional public housing and yet accounted for 10 percent of the IG's findings.

It should also be noted that SFHA inspections were significantly more comprehensive than the IG's. This is due to the fact that the SFHA used the entire 20 page HUD HQS

inspection form (HUD 52580) while the IG inspector used only a one page summary form for his inspections.

By the IG's admission, the number of violations is increased by the nature of the HQS, which requires separate citing of recurring items which may be similar or identical. For example, an apartment with one instance of peeling paint on both the walls and ceilings of three different rooms would be counted as six HQS deficiencies regardless of the extent of the peeling paint or the fact that there may be a single cause.

While the number of deficiencies appears alarming, even by SFHA's count, it is important to review the type of deficiency as well as the number. Since the IG's inspection results were presented only in summary form, it is difficult to determine the severity of the deficiencies they found. However, our findings indicate that very few of the deficiencies are of serious nature or pose a serious hazard to residents.

For instance, 22 percent of the SFHA's findings were for painting deficiencies, exclusively for peeling, cracking and chipping paint. The IG indicates that 26 percent of their findings are related to defective paint. While nearly 20 percent of SFHA's findings fall into the HUD "Illumination and Electricity" category, most of these are caused by broken or defective outlet covers or switch plates and minor window problems. The IG identified 10 percent of their findings in this category.

The IG has indicated that the blame for SFHA's conditions lies mainly with a lack of a preventive maintenance program and inadequate inspections. This further evidences the inadequacy of the IG's findings. The Authority has recently implemented a preventive maintenance program. It is interesting to note that the IG has completely missed the real cause of deferred maintenance here and at other large PHAs around the country: grossly inadequate HUD funding of modernization of facilities. The Authority's recently completed Comprehensive Plan estimates our capital need (to achieve 20-year viability) at more than \$330 million. Assuming no further deterioration and a constant funding level at the current Comprehensive Grant rate, this need could not be met in less than 20 years. Even the best preventive maintenance program anywhere or the most efficiently deployed maintenance staff could not stop the further deterioration which will most assuredly occur.

Finally, the finding ignores recent management improvements at the agency which will help the agency to address long-standing maintenance repair needs. These improvements addressed elsewhere include the creation of a comprehensive Preventive Maintenance Plan, HQS and local code training for staff and the commencement of an automated inspection and workorder management system which will allow the agency to track the completion of inspection generated workorders.

APPLICANT WAITING LISTS, APPLICANT ELIGIBILITY

SFHA RESPONSE: THE AUTHORITY PLACES ITS INCOMING RESIDENTS IN FULL COMPLIANCE WITH HUD REGULATIONS

The most serious implication in this finding is that SFHA "referred" residents to particular developments because of their race, by among other means, allowing project preference and not assigning Asian applicants outside of the Chinatown area. These implications are not supported in the audit with documentation. Furthermore, SFHA records clearly indicate that the audit statements and implications in this area are incorrect.

Project preference in assignments has not been offered at SFHA for over three years. Prior to mid-July 1992, SFHA was required by California Law to allow applicants three refusals of unit offers. While this often led to applicants refusing offers to get to a development they preferred, it is clearly not a project preference policy.

The audit quotes unidentified and unknown SFHA staff saying that Asians are not assigned outside of Chinatown. The IG was actually told that Asians often refuse offers of housing outside of Chinatown. SFHA records clearly indicate that the agency assigns Asian applicants citywide. The same finding indicates that over 90 percent of the waiting list applicants with an application date before 1990 are Asian. This is incorrect.

On August 14, 1992, 1,100 applicants on the SFHA waiting list had applied before 1990. Of this, 573, or 52.1 percent are Asian. A review of 58 of the 71 applicants identified in the audit to be of "Asian surname" indicates that a total of 190 Eligibility referrals of housing have been made for these applicants through August 14, 1992. Ninety-eight percent of these referrals were to apartments outside of Chinatown, and 96 percent to apartments outside of Chinatown and North Beach. These 190 referrals led to 87 offers of housing, eight percent in Chinatown/North Beach and 92 percent in developments outside of Chinatown, mainly Hunter's Point and the Western Addition.

Further review of SFHA demographic information clearly indicates that Asian residents are located throughout the City of San Francisco as follows:

DEVELOPMENT	NEIGHBORHOOD	PERCENT ASIAN RES.
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Family Development Examples:

Holly Courts	Outer Mission	22%
Valencia Gardens	Mission	10%
Alice Griffith	Hunter's Point/Bayview	11%
Hunter's Point A	Hunter's Point/Bayview	9%
San Jule Apts.	Western Addition	13%
Pitts Plaza	Western Addition	24%

Senior Development Examples:

Rosa Parks	Western Addition	25%
Kennedy Towers	Pacific Heights	33%
350 Ellis St.	Tenderloin	59%
Clementina	South of Market	68%
McAllister	Western Addition	25%
31st Ave	Richmond	27%
Sanchez	Castro	15%

A further look at SFHA's citywide demographics delivers the knockout punch to the Asian assignments charge - Of 1,510 Asian households in SFHA, 495 (33 percent) live in Chinatown. With the North Beach neighborhood included, the number of Asian families increases to 622, or 41 percent of the SFHA Asian population. The data indicating that less than half of SFHA's Asian households live in or near Chinatown.

Perhaps the best example of the IG's carelessness in reaching this finding is the Asian population at Robert B. Pitts Plaza. The demographics of this development provide the best snapshot of SFHA's assignment practices as it was occupied within the last year and has less of a refusal factor than other developments. While Pitts Plaza has 203 units, the first 51 residents housed there were returnees from Plaza West, under the terms of a lawsuit residents reached with HUD and the U.S. District Court. For the remainder of the occupants at Pitts Plaza (those housed under SFHA's occupancy practices), the racial demographics are almost identical to SFHA's waiting list.

The auditors failed to look at available demographic statistics which would clearly indicate that in fact, applicants, Asian and other applicants are assigned without regard to race or ethnicity.

Concentrated Assignments. The issue raised by the auditors regarding concentrated assignments to certain developments fails to consider the main reason for this concentration --

The California Three-Refusal rule. While the audit is correct that 93 percent and 83 percent of the applicants accepting housing at Yerba Buena Plaza East and Hayes Valley were African-American, it fails to take into consideration that the proportion of African-Americans referred to these units was actually much lower. Furthermore, applicants of all races were referred to these units.

At Yerba Buena Plaza East, the proportion of African-Americans assigned to units during the audit period was 68 percent of the total, which also included 27 percent Asian applicants. Hayes Valley referrals were 63 percent African-American with another 26 percent made up of Asian and Latino applicants.

These statistics indicate clearly that the reason for concentrated assignments at SFHA sites is the willingness of applicants to refuse locations offered, often until a unit is offered in a development where their race predominates. HUD has recognized the problems inherent in the Three-Refusal rule and has recently superseded State Law and instructed SFHA to abandon this practice.

The IG fails to note the existence of a Title VI review of the Authority by HUD which attributes the existence of racially identifiable developments to conditions dating back to 1985. In addition, a Voluntary Compliance Agreement (VCA) has been reached between SFHA and the HUD Office of Fair Housing and Equal Opportunity which specifies strict guidelines for housing referrals, including the abandonment of the Three-Refusal Rule. The VCA requires extensive training of SFHA staff on assignment and other fair housing and equal opportunity practices. This training has already begun and SFHA is also convening a VCA Advisory Committee made up of all segments of the San Francisco Community. This committee will review the Agency's progress and make recommendations for permanent resident selection practices.

As-is Apartments. The audit claims that SFHA is continuing to lease "as-is" units (those not yet ready for occupancy) by noticing the term "as-is" on lease or credit slip documents. The SFHA no longer has a policy of leasing units "as-is" and has ceased the practice. The auditors found 17 instances in which the term "as is" was used in documentation. This is out of 276 leases concluded during the period and based upon our review of the credit slips, the term "as-is" was inappropriately used.

Single Non-Elderly Applicants. The auditors have erroneously stated SFHA's practice on housing non-elderly single applicants and have not recognized a Congressional statute, namely, the Cranston-Gonzales National Affordable Housing Act; as overriding an outdated HUD regulation. Further, HUD has proposed eliminating rules precluding the housing of certain non-elderly singles. The auditors have also significantly overstated the rent balances of their cited cases by including balances which were not yet overdue.

HUD has granted waivers to several PHA's allowing the admittance of non-elderly singles to units at certain developments when those PHA's cited a high demand among this population as well as a supply of small, hard to rent apartments in family developments. Clearly SFHA's assignment of non-elderly singles meets this criteria. If the SFHA is guilty of anything in this area, it is showing compassion to a desperately needy population without first acquiring HUD approval.

The audit has significantly overstated the rent balances of non-elderly single applicants by representing balances not yet overdue as delinquent balances. The audit indicates that 18 cited "ineligible" single non-elderly applicants had rent balances on May 1, 1992 of \$7,014 (our review of the balances indicates that it is actually \$6,921). However, the IG calculation of outstanding balances includes rents billed that same day (and not yet due) in the amount of \$1,435, or a 21 percent exaggeration of these rent balances.

By the audit's own admission, these residents began as referrals from the San Francisco Department of Social Services. As the next paragraph indicates, the SFDSS refers only emergency applicants to the SFHA. While we will continue to seek lease action on residents who do not pay their rent, we will not walk away from emergency applicants because they may be a bad risk, if these applicants clear all screening criteria.

Social Service Referrals. Finally, the audit implies that referrals from the San Francisco Department of Social Services, Central Relocation and the Mayor's Office of Citizens Assistance Services kept the neediest of San Franciscans out of SFHA apartments. In fact, the opposite is true.

Since the waiting list for all bedroom sizes has not been officially opened since 1986 (in 1988, it was opened for selected bedroom sizes), its Eligibility Department continues to receive referrals of families from direct service providers with proof of displacement or qualification for a federal preference.

The nature of these emergencies, including homelessness and danger of domestic abuse or other violence, indicates that due to their Federal Preference, these applicants would not have remained on the list for a long period of time. It is unlikely that these emergency needs would have come to our attention without the assistance of these agencies and property managers who speak with potential applicants in the neighborhoods of San Francisco.

Four examples of the nature of Social Service referrals:

Ms. H (9101292) was referred by the Hamilton Family Center. Ms. H and her three children were victims of repeated domestic violence and were being followed by Hamilton Family Center. The family had been referred to a shelter, but that stay was limited and they were in imminent danger of becoming homeless when they were referred to SFHA by Hamilton Family Center.

Ms. E (#1001396) was a victim of domestic violence forcing her and her son to the streets. After being put out by relatives and living on the street and in a car, Ms. E found temporary shelter at La Casa. La Casa referred her to SFHA and she was housed as immanently homeless.

Ms. L (#9101019) Ms. L and her daughter were referred by DSS after doubling up with relatives in a small private apartment. When the relatives were evicted the family became homeless and were housed by SFHA.

Mr. C (#9100868) was a fire victim who was later physically abused in a Tenderloin area hotel to which the Red Cross had referred him. Central Relocation referred him to SFHA and he was housed as an Emergency Applicant.

SALARY AND FRINGE BENEFITS COST ALLOCATION

SFHA RESPONSE: SFHA USES ALLOCATIONS PREVIOUSLY APPROVED BY HUD WHICH ARE CONSISTENT AND FULLY JUSTIFIED WITH APPLICABLE FEDERAL REQUIREMENTS.

Allocation of Salary Costs. The auditors have questioned the SFHA's allocations of salary and fringe costs to both the Section 8 and CIAP programs. The allocations used by the SFHA are justified based on methodologies which have been approved by HUD on an annual basis, and are consistent with applicable federal requirements.

The unit-based salary allocation method used to determine Section 8 costs has been used by the SFHA, and approved by HUD, annually since 1988. (Previously the SFHA had used a combination of allocation methodologies, including percentage of units. This methodology was selected as more reliable and less arbitrary than the alternative methodologies previously used.) This practice is consistent with the methodology used by many Housing Authorities across the country, and has been approved by HUD as a reasonable approach.

Administrative costs associated with the Section 8 program include not only the staff who work directly with the program, but also: eligibility staff who are responsible for Section 8 applicants and waiting list, finance staff who process Section 8 payments and budgets, and a variety of staff who provide supervision and administrative support services to the Section 8 program and its staff, including personnel, payroll, procurement, legal, and executive office.

The auditors acknowledge that allocating costs based on a percentage of units can reflect a fair sharing of expenses. This approach is consistent with the approach recommended by HUD in its project-based accounting handbook, for example. The auditors also acknowledge that federal regulations do not specify what methods may be used to allocate costs between programs. This is particularly true in the case of the Section 8 program because the funding for

administrative costs is determined by formula. Section 8 administrative fee revenue that exceeds administrative costs may be used for other housing related purposes, including administrative support for the conventional low-rent housing program.

The auditors indicate that allocations of salary costs to CIAP are "completely arbitrary". There is no indication that the auditors ever spoke with the management staff who are responsible for reviewing and approving CIAP cost allocations. They spoke only with the budget analyst for the operating budget.

The percentage of salary costs allocated to CIAP for each employee is based upon an estimate of the percentage of each employee's time spent on CIAP related activities. This estimate is developed by the Director of Planning and Design, in consultation with department managers, based upon identification of each employee's role and responsibilities related to specific CIAP work items in the budget. The auditors have been provided with additional documentation regarding CIAP salary allocations.

Because CIAP is used only for the housing units contained in the conventional low-rent housing program, these costs are allocated to the portion of each staff member's salary costs associated with that program. Also, when CIAP funding levels are reduced, salary costs are shifted back to the conventional housing program.

CIAP salary allocations are reviewed annually, and adjusted based upon changes in the administrative workload and responsibilities associated with the CIAP program. For example, the allocation of salary costs for the Director of Resident Services was adjusted in the current fiscal year based upon a request by HUD officials, who indicated that the Director's duties included supervision of resident management efforts funded by CIAP and that salary costs should be allocated accordingly.

If anything, the allocations used by the SFHA may tend to understate the administrative responsibilities and costs associated with the CIAP program, which has grown dramatically, and now includes planning, modernization, and management improvement efforts totalling over \$50 million during the past three years.

The auditors cite correspondence between the SFHA and HUD dated 1990 regarding the issue of documentation of actual hours worked. Since that time, the Authority has provided documentation to support the percentage allocation of staff salaries, and HUD has approved these percentage allocations on an annual basis. The SFHA is prepared to compile time study documentation if needed to justify the current allocation of staff salaries to CIAP.

Allocation of Fringe Benefit Costs. The auditors seem to have misunderstood the explanation which was provided regarding the allocation of fringe benefit costs. In general, fringe benefit costs are allocated according to the same percentages as salaries. The only

exception is with regard to the employee's share of retirement costs, for those employees whose salaries are funded by three or more fund sources. The payroll system which was used by the Authority until July 1992 did not accommodate multiple fund sources for these costs, which are deducted from the employee's taxable salary.

While salary and all other fringe benefits were allocated consistently, the employee's portion of retirement contributions was allocated to only one or two fund sources. This had the effect of increasing (usually by one to three percent) the percentage of salary costs for these employees which was allocated to the low-rent operating budget. This was reviewed by the Authority's independent auditors in 1990, who determined that the effect was not material, given the small number of employees and the level of costs involved. This problem has been corrected by the Authority's decision to select a different contractor for payroll services, beginning in July 1992. The new payroll system is able to allocate all fringe benefits by the same percentage allocations which are applied to salaries.

The auditors noted that for the April 18, 1992 pay period, the salary of the Director of Rehab and Construction was charged to CIAP, while his fringe benefit costs were charged to the Low-Rent Program. This was a clerical error which seems to have occurred when the employee was appointed to his current CIAP-funded position. In his previous position, both salary and fringe benefits were paid by the Low-Rent Program. It appears that an error was made in changing the account code for his salary without making the same change to the fringe benefits. This error was corrected before the following pay period.

Salary and Fringe Benefits Allocated To Only One Program. The Affirmative Action Officer and Assistant Legal Counsel were hired to fulfill responsibilities relating to the CIAP program, particularly with regard to administration of contracts for CIAP-funded modernization and management improvements. However, the Authority agrees that the duties of these two employees have expanded to include non-CIAP responsibilities. Accordingly, the salary allocations for these two employees were revised in July of this year, when budgets were established for the upcoming fiscal year, to charge 20 percent of each employee's salary and fringe benefit costs to the Authority's Operating Budget for the Low-Rent Program.

MAINTENANCE OPERATIONS

SFHA RESPONSE: THE IG CONDUCTS ITS AUDIT WITH SERIOUS LACK OF KNOWLEDGE AND UNDERSTANDING OF MAINTENANCE OPERATIONS

Since there are not standards available anywhere to determine the economy, efficiency, or effectiveness of a PHA's, maintenance program, the IG's determination must have been a



subjective opinion on the basis of the lack of experience and knowledge of the subject. The IG comes up quite short. It cannot support the assertion that the SFHA's maintenance operation is not "economic, efficient or effective..." Thus, it has no basis to conclude that "...tenants were not provided with decent, safe and sanitary units."

Use of Skilled Craft. The Authority disagrees with this finding and seriously questions the IG's reliance on data obtained eight years ago from their previous audit. In the 1984 audit, the IG cited an inefficient use of skilled craftpersons. The current audit raises the very same issue, however, no attempt was made to update the eight-year old data on the percentage of time skilled craft spent on work the IG deemed could have been completed by a "generalist type employee."

The IG has not provided evidence to suggest that it would be more cost effective or more efficient to have maintenance mechanics that have a limited scope of responsibility versus skilled craft. In 1984, the IG may have been correct in their opinion that the Authority was not making the most efficient use of skilled craft. Since that time, however, we have decentralized our maintenance operations and have most recently instituted a system to track, by category preference, the assignment and completion of all work orders. The decentralization of our operations included the establishment of mini-warehouses and has resulted in a more efficient deployment of manpower and materials. The decentralization, along with a 75 percent increase in our maintenance staff over the past three years is indicative of the Authority's commitment to an improved response to our residents' maintenance needs. The IG's audit staff were seriously inexperienced to have completed a valid site analysis of this Authority's maintenance operations.

It is also evident that the auditors have spent little or no time at the collective bargaining table. A more experienced reviewer would have known that jurisdictional lines between crafts are governed by agreements between the craft unions and are as vigorously protected as prevailing wages, a concept fully supported and enforced by HUD.

The opinion suggested by the IG that the Authority has been remiss in not convincing local trade unions to disregard jurisdictional lines completely and irresponsibly assumes:

1. That the unions would have to disregard 50 years of past practice, which has defined specific work jurisdictions for each craft and which is the basis for maintenance operations for the City and County of San Francisco, as well as the Authority.
2. The unions would accept firing of many of their members so that they can be replaced with lower paid workers.
3. The unions would ignore all past and present collective bargaining agreements which clearly recognize the unions historical work within their individual jurisdictions.

Local unions in San Francisco refuse, under any circumstances, to give up a jurisdiction within their craft categories. All unions refuse to unilaterally take over a jurisdictional area that has already been identified in another union's bargaining jurisdiction. For a third party to make uninformed recommendations on local union jurisdictional areas that have been established through a collective bargaining process is irresponsible and potentially a basis for a major work force labor disruption. The result would hardly enhance the "economy, efficiency, and effectiveness" of our program.

On one hand, the IG criticizes the SFHA for using skilled craft to complete work which, in their view, could have been done by a generalist. On the other hand, they state that by budgeting only 70 (39 percent) of the more skilled craft to make repairs to 47 developments, the SFHA has assured itself of having an inefficient and ineffective maintenance program. The SFHA concurs with the IG's inference that there is a need for additional skilled craft particularly given the increases to the numbers of service requests resulting from unit and preventive maintenance inspections and the demands placed on the maintenance operations by the Authority's aging public housing inventory, which, according to the agency's Comprehensive Plan for Modernization, requires \$330 million dollars in needed repairs.

The IG's contention that the Authority's laborers and custodians deal solely with interior and exterior cleanup is incorrect. Both classifications are involved in assisting the skilled craft with work such as dig ups, clean-up as a result of sewer back ups, assistance with cement repairs, transport of appliances, and preparation for rehabilitation of vacant units.

Proper Maintenance Repairs. The IG's opinion that maintenance repairs to units were not always performed properly is based on seven (7) examples where maintenance work had to be repeated in the same apartment. There are occasions when a repair may not adequately solve the problem and a call back to the unit is necessitated. However, three (3) of the seven (7) examples given by the auditors all involve building water leak damage repairs. The auditors believe that these water leaks indicate that the work was not done properly, that management was not notified of the true causes of the problems, that there is no internal control system for repairs, and that residents were not provided decent, safe, and sanitary units.

Finding the source of leaks is one of the most difficult problems to identify and can be extremely expensive to correct. The impression given by the auditors is that maintenance staff blindly went to apartments and repaired the leak damage but did not bother to address the source of the leaks. Had the auditors explored these examples a little further, they would have found that the Authority had taken a reasonable approach to address the causes of the problems until a more permanent solution could be found and had requested modernization monies to fund the repairs.

Emergency Work Orders. The Authority has adopted a definition of emergency work which is appropriate. The IG offers an opinion on what work items should be classified as

emergencies and believes that the Authority's list of emergency symptoms is not broad enough. HUD clearly defines what constitutes an emergency in the PHMAP rule; namely, "physical work items that pose an immediate threat to the life, health, and safety of residents, or that are related to fire safety." The Authority completed an analysis of its emergency work order symptoms and developed a definition of emergency which is consistent with HUD's.

The IG incorrectly reports that all work orders which did not meet the new definition were canceled. Any work orders that were already in the system under the previous definition of emergency remained in the system but their classification changed if the symptom did not meet the new definition.

Purge of the Work Order System. We disagree with the auditor's contention that the purging of our work order system was inappropriate. We also dispute the use of the term "blanket" cancellation when, in fact, there was an exhaustive analysis completed which included a review and verification of the validity of obsolete maintenance work orders. To determine the legitimacy of the service work order requests, maintenance staff and property managers were given computerized reports to verify whether the requested work has been completed. The methods used were site visits, telephone calls to residents and craft log sheets.

It appears that the basis for the conclusions reached by the IG is a direct result of conversations with staff from the MIS Department which have no responsibility or authority over the maintenance operations. Although staff are encouraged to express their opinions, it is inappropriate that these opinions would be the basis for findings supporting the IG's contention that there was a blanket cancellation of work orders which resulted in a serious violation of its responsibility to provide residents with decent, safe, and sanitary housing.

Based upon our collective experience and the fact that there has been no violation of any state or federal regulations or laws, we established and stand by the parameters of our decision to purge the system and bring about improved maintenance service to our residents.

Overtime. The Authority strongly disagrees with the IG's claim that overtime was erroneously approved as well as the examples cited to illustrate the SFHA's alleged poor management of limited resources. The Authority takes seriously its responsibility to provide residents with decent, safe, and sanitary housing no matter what time of day. To meet after hour maintenance needs, the SFHA puts in place skeleton crews to be on call to respond to emergencies. The manner in which we respond to after hours emergencies is an administrative decision determined by the Authority.

The SFHA handles its after hours emergency calls through a duty officer system comprised of senior staff members. There are instances when staff must respond to what may be routine by nature such as the discharge of a fire alarm system. The IG cites three examples of work where they believe overtime was inappropriately approved. The Authority has carefully

reviewed the work orders cited in the IG's finding where it is noted that overtime was paid for work which was not classified as an emergency. The Duty Officer oftentimes makes determinations based on the descriptions provided by the residents or the answering service. This can result in dispatching craftpersons for problems that may not meet the Authority's definition of an emergency. The work day following the after hours response requires the preparation of a service work order. The System 38 then categorizes the work in accordance with predetermined symptoms. We agree that the nature of the work reported on the cited work orders do not constitute an emergency. However, that determination was made by the Duty Officer without the benefit of all information required to appropriately determine its urgency.

Order of Completing Work Orders. The IG equates the order of completing work orders with selecting applicants from a waiting list. Completion of work orders solely by their date of request is not the most effective manner in which to respond to requests. Consideration must also, be given to the work order priority category and planning maintenance activities to insure the most effective and economical use of resources. The Authority has an established order of priority for completing maintenance work orders as follows:

- Emergencies
- Vacates
- Home Inspections
- Preventive Maintenance
- Routine

While the date of request is considered by the Authority, the overriding factors are the work order priority and the establishment of work schedule based on the most efficient deployment of maintenance resources.

COLLECTION OF ADDITIONAL INCOME

SFHA RESPONSE: ADDITIONAL INCOME CITED BY IG WOULD HAVE COME FROM THE POCKETS OF RESIDENTS. THE SFHA OPPOSED SHIFTING CERTAIN EXPENSES FROM THE FEDERAL SUBSIDY TO TENANTS

The auditors incorrectly assert that the SFHA's failure to charge tenants for repairs, excess utility charges, and late rent payments has resulted in a substantial loss of revenues. The SFHA disagrees with this contention. Maintenance charges are made, but are difficult to collect from tenants; implementation of excess utility charges would not be cost-effective. Potential revenue from any of these charges is extremely minimal.

Tenant Caused Damages. The auditors incorrectly concluded that the SFHA does not charge tenants for repair costs attributable to damages caused by the tenants or their guests. The methodology used to reach this conclusion was faulty, and did not include a review of tenant accounting records.

During the 1990-91 fiscal year, maintenance charges totalling \$22,237 were posted to tenant accounts. During the three month period reviewed by the auditors (April to June 1992), maintenance charges totalled \$5,576 were posted to tenant accounts. During the first nine months of the 1991-92 fiscal year, tenants were charged \$17,845 for maintenance costs for tenant caused damages.

In general, however, the SFHA collects very little from tenant maintenance charges. Tenants cannot be evicted for non-payment of maintenance charges, and pursuing collection for small amounts through small claims court is generally not cost-effective. The tenants who damage their units are also likely to vacate their units (often as a result of eviction proceedings) without paying these charges.

Excess Utility Charges. The auditors note that the SFHA does not utilize checkmeters to bill tenants for excess utility charges. The use of checkmeters has been proven not cost-effective in developments owned by the SFHA. This is the result of a number of factors.

First, most SFHA developments have no checkmeters, or checkmeters which measure only electricity, which is not generally used for cooking, heating, or hot water. Because the utility consumption measured by the checkmeters is only a small fraction of total utility use, the variation among consumption levels is not significant, and the utility costs that might be subject to excess utility charges are relatively minor.

The cost of monitoring and repairing checkmeters would be greater than the potential revenue from excess utility charges. When used in the past, checkmeters were regularly vandalized. For example, at the Alemany development, HUD concurred with the Authority's decision to remove checkmeters after new meters were extensively damaged a year after installation. Costs to repair and regularly inspect the checkmeters would have been high, and there was every reason to expect that with continuing damage, it would be impossible to accurately bill tenants for excess usage.

With checkmeters removed or absent from many developments, and with a history of seriously unreliable checkmeter readings, significant equity issues would be raised if the SFHA were to attempt to impose excess utility charges on the minority of tenants whose units had checkmeters.

Taking these factors into consideration, the SFHA determined that the inspection and repair of checkmeters would not be cost-effective and would divert staff resources that would be better utilized addressing maintenance needs of tenants.

Rent Late Payment Charges. The auditors note that the SFHA does not impose late charges for rent payment after the 10th day of the month. As explained to the auditors, rent payments are posted to the tenants' accounts at the time the computer program is run, not at the time the payment is received. The auditors have provided no support for their contention that imposing late charges (which would increase the balance owed by tenants) would reduce the amount of overdue rent owed by tenants.

PERSONNEL PRACTICES

SFHA RESPONSE: THE SFHA SALARY CLASSIFICATIONS COMPLY WITH COMPARABLE CITY AND COUNTY CLASSIFICATIONS AND WERE REVIEWED BY CCSF CIVIL SERVICE COMMISSION STAFF AND CONSULTANTS

The SFHA's classification system for most administrative positions is based upon a combination of recommendations provided in 1986 by Ralph Anderson and Associates, and in 1987 by staff of the Civil Service Commission of the City and County of San Francisco. Classifications have also been reviewed and revised through "desk audits" performed by an independent consultant or by staff in the Personnel department.

The Authority's classification system has not been completely reviewed or updated during the past five years as new positions have been added and job duties restructured. As a result, the SFHA acknowledges that it has not maintained complete documentation regarding the comparability of some of its job classifications with classifications established by the City and County of San Francisco. The SFHA has already taken steps toward conducting a complete review of its classification and compensation structure during the upcoming fiscal year.

In general, the SFHA has tried to identify job classifications in the City and County of San Francisco (CCSF) which are comparable to the Authority's job classifications. In past years the SFHA has used the "whole job method" to determine matches between SFHA and CCSF classifications. Since 1990 the SFHA Personnel Department has prepared a "Factor-based Classification Evaluation" which compares the SFHA classification with three comparable CCSF classifications, using factors such as skill, responsibility, supervision, budget control, and professional qualifications. When comparable job classifications are identified, SFHA salaries are based on the annual salary ordinance adopted by the City and County of San Francisco.

The Authority also uses an internal benchmarking approach, in an effort to establish comparable salary levels for classifications which involve comparable levels of skill, responsibility, etc. For example, the SFHA Unit Manager is the job classification used as an internal benchmark for most SFHA department heads and staff who have similar levels of responsibility, skill, and professional qualifications. This approach has been utilized to limit discrepancies in salary among the SFHA's "middle management" staff. While the auditors note that there are differences among these positions in terms of the number of employees supervised, this is only one of the factors used to determine comparability.

The SFHA management staff may have determined the CCSF benchmark on the basis of information obtained informally from CCSF Civil Service staff, familiarity with comparable CCSF classifications, or internal comparisons with other SFHA classifications. This "whole job" approach has not always been adequately documented.

This is not a problem unique to the Authority. In fact, the Civil Service Commission has approved a large number of jobs in recent years "pending classification." It is not unusual for one-person job classes in the CCSF to await classification by the Civil Service Commission for several years, while greater attention is paid to completing classification analysis for job classes with a larger number of employees.

The Authority has already identified the need for a complete review and update of its classification and compensation structure. We have initiated discussions regarding this issue with the union which represents most administrative personnel. After we have fulfilled our obligation to meet and confer, we plan to issue an RFP and to select a contractor who will assist us in updating all job descriptions and classifications and identifying appropriate comparable CCSF job classifications.

We disagree with the auditors' determination that a "consultant" was hired for work which overlapped staff responsibilities. The fact that the temporary, part-time employee was hired in the same job classification as another employee does not mean that their responsibilities overlap. In fact, the permanent employee in this job classification is primarily responsible for planning activities relating to Management Improvements funded under CIAP and the Comprehensive Grant Program. The temporary employee has responsibilities which involve a comparable level of technical and professional skill, but which relate to rehabilitation of the North Beach development.

The auditors have also questioned the Authority's practice of hiring some employees at a salary level above step 1. In general, employees are hired above step 1 when the higher salary is justified by the employee's prior compensation, or when required to recruit qualified employees to fill a position. Among the employees recently hired above step 1 are at least four who accepted positions with the SFHA at salary levels that were \$5,000 to \$20,000 below the salaries they were previously earning.

TRANSFER OF INADEQUATELY HOUSED RESIDENTS

SFHA RESPONSE: THE IG HAS MISSTATED AND GROSSLY MISINTERPRETED HUD REGULATIONS REGARDING A PHA'S OBLIGATION TO ASSIGN RESIDENTS TO CERTAIN SIZE UNITS

PHA's are instructed to set occupancy policies which keep vacancies low as is attested by the wording of this passage from the HUD Handbook (7465.1 REV-2 CHG-1 2/91):

"The PHA must set reasonable occupancy standards which will assist as many people as possible without overcrowding the unit or the project and which will minimize vacancies." (our emphasis)

Further, throughout HUD's February 1992 transmittal regarding changes in the HUD Occupancy Handbook (7465.1 REV-2 CHG-1) HUD makes clear that bedroom size assignment is a matter left to the PHA's discretion based on local needs. Excerpts from the transmittal and regulations:

"...the responsibility of establishing space standards lies with the PHA, HUD has traditionally provided advice and technical assistance to PHA's in this area."

Also:

"HUD does not specify the number of persons who may live in public housing units of various sizes (7465.1 REV-1 CHG-1, Section 5.1a(1))."

HUD regulations allow, but do not require the PHA to provide for a standard of 1 bedroom for every 2 occupants (7465.1 REV-2 CHG-1 Chapter 5.1b:

"In establishing occupancy standards, PHA's *may* provide for the assignment of units so that: (a) No more than two persons would be required to occupy the same bedroom..."

The HUD Handbook clearly indicates that HUD provides only guidelines in the area of bedroom size assignment. Rather than interpreting the intent of this regulation, the IG has attempted to tie SFHA to Section 8 regulations (24 CFR, Part 882, Section 109(c), which do not apply to HUD Conventional Public Housing.

Waiting List vs. Transfers. The problem is not as the auditors claim, an effort to increase occupancy at all costs. Rather, it is a factor of the overwhelming need for and lack of adequate supply of low income housing in San Francisco. This situation, combined with changing economics and demographics which has transformed public housing from temporary to permanent housing for many poor families has created a difficult, but clear choice for the

SFHA to give emergency waiting list applicants a higher priority in assignment than already housed, but often overcrowded residents.

However, the issue of waiting list vs. transfer applicants is largely a decision between two compelling but competing needs. While a number of existing residents are overcrowded and in need of transfer, emergency applicants are often living in shelters or on the street. Our choice in this area becomes whether to address comfort (overcrowding) or emergency need (homeless, domestic violence). One need not venture very far on the streets around SFHA and HUD offices to understand the overwhelming need of affordable housing in San Francisco.

Initial Occupancy. The audit fails to mention that all under-housed and over-housed residents were properly housed when they first took occupancy. In many cases, their families grew larger as residents had children, leading to under-housing. In other cases, older children left the apartment as they became adults, leading to an over-housed situation.

It has been the practice of SFHA to consider the future needs of infant children, when doing initial occupancy and transfer, despite the fact that HUD has allowed infant children to be assigned the same bedroom as their parents. Our action in this area was based on preventing additional under-housing.

Priority Transfers. The SFHA does operate a Priority Transfer list. Each resident request for transfer is reviewed and recommendations from public safety or medical sources lead to placement on the Priority Transfer list. This list is updated weekly with residents removed if they are transferred or if they refuse a unit without cause.

The finding is incorrect that 12 families were left off the Priority Transfer List. Had the IG properly reviewed the files, they would have indicated that six of these residents were on the Priority List and had been removed after refusing an offer of a Priority Transfer. One more vacated and was removed from the list. Five families were inadvertently left off the list but have since been added.

TENANTS SECURITY DEPOSITS AND OTHER MONIES DUE TENANTS

SFHA RESPONSE: THE SFHA PRACTICES ARE FISCALLY PRUDENT AND IN FULL COMPLIANCE WITH ALL FEDERAL, STATE, AND LOCAL LAWS AND REGULATIONS

The IG's conclusion that the Authority did not have the necessary funds to cover \$1,017,917, consisting of tenants' security deposits (\$878,484) and refunds due former tenants (\$139,433) is incorrect. The Authority properly accounts for, and is fully able to cover security

deposits and monies due its tenants. Further, the IG's assertion that finance staff "did not know what happened to the funds but thought they were probably used to pay operating costs" is blatantly false and unsupported by existing data. As authorized by the ACC (Sec. 401) and permitted by HUD regulation (HUD Handbook Sec. 7510.1, Ch.3, Sec. 2, #2114), the SFHA has invested the above amounts in appropriate investment vehicles.

The IG auditors' contention that tenant security deposits should be maintained in a separate cash trust fund is not supported by law or regulation, nor is it consistent with sound fiscal management practices. The IG auditors cite the HUD Handbook 7510.1, which provides that "Where local laws or ordinances do not require segregation of these funds, they may be deposited in the General Fund."

California State laws currently have no requirements for the isolation of tenant security deposits in a separate fund. Further, the City of San Francisco's laws and ordinances do not require the segregation of tenant security deposits. This was confirmed by the Executive Director of the Residential Rent Stabilization and Arbitration Board, City and County of San Francisco, who stated that there are no provisions of state or local laws which require a separate trust account for security deposits, and that the SFHA's practice is consistent with that of many large rental property owners.

It is not reasonable or necessary for the SFHA to maintain cash balances on hand to cover all tenant security deposits. It is inconceivable that 100% of the tenants of all of our public housing developments would vacate their units and be entitled to receive a refund of their security deposits at the same time. Most tenants ultimately forfeit their security deposits when they vacate as a result of delinquent rent balances or maintenance charges for damages to their units. The SFHA maintains sufficient cash on hand to cover reasonable expectations regarding the number of security deposit refunds that will be paid at any time.

Prudent business practice and conformance with generally accepted accounting practices stress the need for accountability of assets as well as the need for increasing the strength of operations, investing operating funds consistent with our fiduciary responsibility, and maintaining a steady cash flow. The Authority has accounted for all assets, disclosed the liability in its entirety, consistently provided a positive cash flow, and has invested those funds prudently.

The Annual Contributions Contract, Section 401 General Depositary Agreement and General Fund (E) states:

"If at any time the Local authority has monies on deposit in the General Fund in excess of its prudently estimated needs for the next ninety days, such excess monies shall be invested in investment securities selected by the Local Authority and approved by the PHA."

The IG's statement that the low-rent general operating fund balance was only \$529,621 as of March 31, 1992 is correct. However, the statement that the investment account "only had a \$150,000 balance" is inaccurate. One of ten investment accounts maintained by this Authority had a balance of \$150,000. The IG failed to report on the other nine. Also, the IG failed to account for outstanding receivables due from HUD. In fact, during the following month the SFHA received \$2.5 million from HUD to reimburse CIAP and development costs. If the IG had considered all appropriate funds and outstanding receivables, the IG would have found that the Authority had more than enough funds to cover all liabilities as shown in accounts 2114 (Accounts Payable- Tenants Security Deposits), 2242 (Unclaimed Tenant Refunds), and 1033 (Vacated Tenant Accounts Receivable with a credit balance).

HUD Handbook 7510.1, Low-Rent Housing Accounting Handbook, Chapter 3, Section 2 provides the following instructions for Liabilities and Surplus Account 2114:

"Accounts Payable - Tenants Security Deposits. The credit balance of this account represents the amount of deposits which are held for tenants and are to be returned on the termination of their leases after deducting therefrom rent due and charges for property damages for which tenants are held responsible. This account may be maintained by project or by any combination of projects under the same Contract or it may be further subdivided as desired by the local Authority."

The IG's statement that the remaining \$112,814 represents money due former tenants for security deposits, overpaid rent, and maintenance and legal cost overcharges was correct, in part. However, the Authority believes that the amount may be overstated because the credit balances may have been improperly treated, that is to say that maintenance charges had not been applied.

This Authority is properly accounting for all assets and liabilities. The IG's claim that the Authority failed to properly account for tenant refunds constitutes a serious violation, is out of context, is without merit, without substantive corroborated evidence, and is based on inadequate knowledge and testing of the proper accounts.

UNNECESSARY AND UNREASONABLE USE OF PROJECT OPERATING FUNDS

SFHA RESPONSE: THE IG FOUND NO EXPENSES UNALLOWABLE OR NOT IN COMPLIANCE WITH RULES AND REGULATIONS

The auditors have characterized expenditures totalling \$144,781 over a period of more than three years as "unnecessary and unreasonable expenses" without adequate justification for

this characterization. While the Authority agrees that costs totalling \$2,868 should be (and in some cases have been) reimbursed by employees, most of the costs identified by the auditors are for allowable expenses to implement policy decisions of the Executive Director and/or Commission. It is completely inappropriate for the auditors to substitute their own judgement for that of the officials responsible for the administration of the San Francisco Housing Authority in matters such as the location of the Authority's eligibility office or the compensation provided to the Executive Director pursuant to his employment contract.

Office Space and Security Services. Approximately one-half of the "improper" costs identified by the auditors include rent, security services, and renovation costs for the Authority's Eligibility Office, which is located at 241/243 Golden Gate Avenue. This office is located in the heart of San Francisco's Tenderloin neighborhood, which has one of the city's highest concentrations of homeless and very low-income families and seniors, and social service agencies serving these individuals. The Authority's Eligibility Office is located less than one mile from the Department of Social Services, the City's two Multi-Service Centers for the homeless, and most of the City's homeless shelters and soup kitchens.

According to the 1990 Census, 27 of the City's 34 census tracts with the highest concentrations of low-income persons are near the Authority's Golden Gate Avenue Eligibility Office. More than three fourths of the City's low-income population lives within a mile and a half of the Eligibility Office. Low income seniors are also more heavily concentrated in the neighborhoods close to the Golden Gate Avenue office.

Golden Gate Avenue is in the central transit core served by MUNI Metro, Trolley, and bus lines from all over the City. There are 14 Muni lines that stop within two blocks of the office, and an additional 17 lines, coming from all over the City, that provide access to within two blocks of the office with only one transfer.

The office has been renovated to provide private interview areas for staff to meet with applicants, a play area for children, and the space also includes a large auditorium which is available for meetings with large groups of applicants. The monthly rent for 3,130 square feet of office space, 2,000 square feet of records storage area, and 1,620 square feet of meeting space (which is available to the Authority for four hours each day) is only \$2,800 monthly, during the five-year term of the Authority's lease.

By contrast, the Egbert Street location, which the auditors suggest as a more cost-effective location, is in the southeast part of the city, approximately 4 miles away from the Civic Center - Tenderloin area where most services for homeless and very low-income families are concentrated. Only one bus line stops within two blocks of the Egbert building near Candlestick.

The Egbert Street building houses the Authority's maintenance operations, main warehouse, computer, and a unit of the San Francisco Police Department. The Egbert location currently is not used for services which require access by the general public. The Authority's administrative staff was temporarily located at the Egbert location during 1986 and 1987, while the building at 440 Turk Street was under construction. However, the Authority found that the relative isolation of that location and the lack of public transportation made it inappropriate for most of the services which require access by applicants and tenants.

The Authority's decision to establish an Eligibility Office at the Golden Gate Avenue location was previously approved by HUD. For the auditors to second-guess a management decision such as this, and to characterize the modest costs associated with this office as unnecessary and unreasonable, given the factors outlined above, is grossly inappropriate.

Executive Director's Compensation. The auditors question a number of specific provisions in the SFHA's Employment Agreement with the Executive Director. The auditors indicate that these provisions are contrary to local public practice and/or violate the City and County of San Francisco Administrative Code. Although the SFHA attempts to achieve reasonable comparability with the City and County of San Francisco, the City's Administrative Code does not legally apply to the SFHA. The SFHA, like most other housing authorities in California, is created by and governed by state law, and is expressly exempt from a number of local ordinances.

It is important to address the spirit of comparability, because here, too, the auditors' assumptions and conclusions are incorrect. The auditors take exception to some provisions of the Executive Director's employment agreement, without recognizing that in other aspects the Executive Director's compensation may be less than that provided to other City and County officials with comparable levels of responsibility. A number of other City department heads receive salaries higher than that paid to the Authority's Executive Director. Some also receive other forms of compensation, including automobiles, drivers, rent-free housing, use of a luxury box at Candlestick Park, etc. On balance, taking all of these factors into consideration, the total compensation provided to the Executive Director does not exceed, and in some cases may be significantly less than, the compensation provided to comparable local public officials.

Retirement Contributions. The auditors have questioned a provision of the Executive Director's employment agreement which provides that the Authority pay, on behalf of the Executive Director, the employee's contributions to the Public Employees Retirement System.

The Executive Director's employment contract provides for compensation that is comparable to other city department heads. At the time this employment agreement was first approved by the Commission, the retirement contributions for other city department heads significantly exceeded the Authority's "employer share" contributions to PERS. Even under the terms of the current employment agreement, the Authority's contributions on behalf of the

Executive Director have been, on average over the past three years, less than the retirement contributions for other city department heads.

Vehicle Lease. The auditors also question the costs of the vehicle leased by the Authority for the Executive Director's use. As provided by the terms of the Executive Director's employment contract, the Authority provides an automobile for his exclusive use. The primary use of the vehicle is related to the performance of his official duties. The Executive Director's personal use of the vehicle is reported annually to the IRS as taxable compensation, in compliance with federal law.

This practice, and the costs associated with this lease, are not inconsistent with the practice of the City and County of San Francisco. While the Executive Director's choice of a Ford Explorer may be uncommon, the costs are not significantly higher than costs for vehicles leased or purchased for other city department heads.

The auditors cite two provisions of the City and County of San Francisco's Administrative Code, which govern vehicles owned, leased, or rented by the City and County. While useful for evaluating comparability, these administrative provisions do not override the provisions of the Executive Director's employment agreement.

The auditors acknowledge that the lease of a vehicle for municipal business use, at a cost comparable to that of vehicles provided to City and County officials with positions comparable to the SFHA Executive Director's, would be an appropriate and allowable cost. However, they inexplicably report 100 percent of the lease costs for the Executive Director's vehicle as "unallowable costs."

Annual Leave. The auditors indicate that the provision of the Executive Director's employment agreement which permits payment in lieu of annual leave is also improper, since San Francisco City and County personnel policies do not authorize such payments. Again, the Authority looks to local government compensation levels and practices as a comparison, the Authority is not governed by the personnel policies of the City and County.

The Authority's employment agreement in this area may actually be more fiscally prudent than the regular practice of the City and County. Because the City and County does not provide payment in lieu of annual leave, many employees, including department heads, accumulate large balances of unused, vested annual leave time. When these employees resign or retire, they are compensated for these leave balances at their salary level at the time of termination, rather than at the lower salary levels that were applicable at the time the annual leave was earned.

The Executive Director's employment agreement simply permits the Authority to provide payment for unused annual leave on a year-to-year basis at the salary applicable at that time, rather than allowing unused leave balances to accumulate for payment at some future date at a

significantly higher salary level. Because this provision results in reduced costs to the Authority over the long term, we strongly disagree with the auditors' contention that these costs are improper.

Other Unreasonable Costs -- Unjustified Time Off. The auditors indicate that the SFHA's administrative leave policy is contrary to local public practice. The Authority's Personnel Policies and Procedures were revised in February 1992 to eliminate compensatory time off for employees who are exempt from the federal Fair Labor Standards Act, and to allow the use of administrative leave instead to recognize the extraordinary effort and commitment of employees whose responsibilities require work in excess of the normal work week.

The Authority's policies were revised, in part, in response to issues that had been raised in recent litigation involving public employees in the State of California, including a class action lawsuit that had been filed on behalf of FLSA-exempt employees against the City and County of San Francisco. While the issues involved were complex, they centered around the argument that hour-by-hour timekeeping, whether for applying leave benefits to absences of less than a full day, or for reporting compensatory time earnings for hours worked in excess of the normal work day or week, violated the "salary test" used to determine whether professional and management employees are exempt from the Fair Labor Standards Act requirements for overtime pay for all work in excess of 40 hours a week.

The Authority determined that administrative leave, which allows some time off for employees whose work responsibilities demand significant effort outside of the normal work week, was more appropriate than allowing professional and management employees to earn compensatory time off for overtime work on an hour-for-hour basis. This new policy was developed in consultation with the Employee Relations Division (ERD) of the City and County of San Francisco, and was consistent with the direction the ERD director was attempting to move the city's policies for professional and management employees at that time. The policies and practices of departments within the City and County are somewhat inconsistent, but have on numerous occasions allowed department heads and other high level management personnel to receive compensation in the form of leave, overtime pay, or cash upon termination for compensatory time earned for overtime work.

Accordingly, we do not agree that the Authority's administrative leave policy is contrary to local public practice. We believe that the Authority's policy is actually more fiscally prudent than the practices of many city departments.

The auditors have identified as "unjustified" a total of 284 hours of paid time off which was granted to 23 employees. The auditors also criticized the Authority for granting 11 employees one-half day off due to the death of a co-worker. While such a practice is often not formally recognized in personnel policies, in practice, it is not at all unusual for public or private employers to allow employees to go home early after the news of the sudden and

unexpected death of a co-worker, or to attend a co-worker's funeral. In the case of the Deputy Director for Management Operations, the Executive Director's decision to grant administrative leave was based upon the Deputy Director's frequent obligation to work very long hours, including nights and weekends. While such efforts are expected as part of the Deputy Director's job, it is also consistent with the practice of other city departments and other Public Housing Authorities that such efforts are compensated by additional leave time or compensatory time off.

Executive Director's Travel Cost. The auditors concluded that the travel costs for the Executive Director's attendance at a meeting in Dallas with other public housing officials were "inappropriate". As the auditors indicate, the purpose of the meeting was to address organizational issues relative to the work of the National Commission on Severely Distressed Public Housing.

The SFHA's Commission authorized the Executive Director's travel in conjunction with the National Commission, and all other costs associated with his participation in the Commission have been reimbursed to the Authority. We believe that the Executive Director's participation in a planning meeting with other members of the Commission is a reasonable and appropriate activity, and we disagree with the auditors conclusion that these are not appropriate costs.

Labor Union Fees, Employee Parking Tickets, and Personal Long Distance Calls. The auditors identified \$2,868 in costs (over a three-year period) which should have been reimbursed by employees. The Authority agrees that the costs in question are the employees' responsibility, but disagrees with the auditors' conclusion that no attempt has been made to collect reimbursement from the employees.

In a few cases the Authority has advanced funds to cover labor union initiation fees for residents who have been hired as employees through union apprenticeship programs. These labor union fees were then repaid to the Authority after the employee began work, either through payroll deductions or by a check from the employee. It appears that in 1990, when the Authority was beginning an aggressive program of resident hiring, union fees totalling \$435 were paid for two residents without establishing payroll deductions to reimburse the Authority. This error has now been corrected. The other two employees cited by the auditor repaid their union fees by direct payment and payroll deduction.

With regard to the parking tickets for SFHA vehicles, the Controller attempted to determine the identities of the drivers of each vehicle and initiated attempts to recover these costs from the responsible employees. We acknowledge that there was insufficient follow-up to ensure that employees repaid these costs.

In recent years, the Authority has billed employees monthly for personal long distance phone calls. Generally, the two employees whose calls were identified by the auditors have made prompt payments for their personal calls. It appears, however, that for several months

during the 1991-92 fiscal year, staff failed to bill these employees for calls they made. This happened during a period of staff reassignment for training purposes. The SFHA has recently notified these employees that they will no longer be permitted to make long distance personal calls on SFHA phones, because of the administrative cost associated with collecting reimbursement.

Contrary to the staff comment reported by the auditors, the Accounting Supervisor and/or the Controller regularly review telephone bills to identify unauthorized long distance calls, and the Authority has imposed limits on the number of employees whose telephones have access to long distance service.

UNALLOWABLE ENTERTAINMENT COSTS

SFHA RESPONSE: IG INCORRECTLY CONTENDS FUNDS FOR TENANT ACTIVITIES ARE UNALLOWABLE. HUD REGULATIONS ENCOURAGE SUCH ACTIVITIES

The auditors identified costs totalling \$53,059 over a period of nearly two years, which are characterized as "unallowable entertainment costs." Of this amount, \$43,436 was identified as costs for parties and related expenses. While the description of these costs implies that they were for parties and other activities for Authority employees, more than two-thirds of the items identified by the auditors in this category were for tenant events, including Christmas and Halloween parties organized by Tenant Associations for the children who live in the Authority's housing developments, Christmas parties for senior residents, refreshments for participants in neighborhood clean-ups, bus transportation for tenant summer field trips, and baseball gloves for resident youths.

The Authority strongly disagrees that these costs for tenant events are unallowable. In our efforts to encourage tenant participation in clean-up events or tenant association meetings, we have found that when hot dogs or cookies and sodas are served, participation levels increase. The parties and events organized by Tenant Associations for the children and seniors in our developments provide some holiday joy for many families whose limited resources provide little opportunity for celebration. We strongly defend these modest expenditures on behalf of our tenant organizations.

The auditors have also included in this category of "unallowable costs", costs for two of the Authority's annual employee picnics, and one Christmas breakfast for employees. It is the Authority's position that such events are important in maintaining and improving employer-employee relations and employee morale, and as such are authorized by OMB Circular A-87.

These events offer a rare opportunity for administrative staff, managers, crafts and construction workers, whose day-to-day work assignments may separate them by status or location, to work together, cook together, and participate in recreation together outside of their normal workday roles. These activities play an important part in building and sustaining a spirit of teamwork that is critical to the Authority's daily performance in service to the residents of public housing. As such, these expenses should more appropriately be considered "Employee Morale, Health and Welfare Costs," which are allowable costs under federal guidelines. The Authority does, however, agree that these costs for non-tenant events and staff activities should more appropriately be paid from a source of funds other than the Low-Rent Operating Budget.

The auditors also questioned the Authority's practice of granting time off for employees who participated in planning parties and picnics. These employees generally put in many hours preparing for the Authority's annual picnic or Christmas events. The Authority believes that these contributions deserve some recognition, and that the time off that is granted is more than compensated by the immeasurable impact on employee morale and performance.

The auditors identified costs totalling \$1,628 for local meals. These are business meals expenses, for meetings involving the Executive Director, Commissioners, staff, consultants, local public officials, and resident leaders. While these are legitimate costs of performing the Authority's governmental business, we agree that the Authority should identify an alternative source of funds for this purpose. Accordingly, these costs will be charged to a fund source other than the Low Rent Operating Budget.

UNCLAIMED TENANT FUNDS

SFHA RESPONSE: SFHA BELIEVES IT IS IN COMPLIANCE WITH STATE UNCLAIMED FUNDS REQUIREMENTS

The methodology used by the IG to determine a \$89,179 liability to the State of California is seriously flawed. The Authority maintains that it is not liable to the State of California for this amount but rather the credit balances should have been applied toward additional maintenance charges and/or costs associated with cleaning the unit after the tenants vacate. Staff will seek in-house legal counsel to review the state requirements and to provide legal consultation on the applicability of the State law.

The State of California, Unclaimed Property Law, Code of Civil Procedure, Article 6, Section 1576 also states that any person who "willfully" fails to render any report will be fined but not more than two thousand dollars (\$2,000). The IG's claim that the Authority willfully/intentionally failed to comply with this law is unsubstantiated.

The IG's statement that the finance department staff did not know what to do with the funds is inappropriate since the IG failed to consult with the Deputy Executive Director for Administration and Finance, the Controller, or Legal Department staff on this issue.

The Authority further takes issue with the IG's declaration of staff's "apparent indifference" to this matter formed as another example of a lack of prudent financial management. Since no rules and regulations were violated, there is no reasonable or factual basis for such an irresponsible charge.

PROCUREMENT PRACTICES

SFHA RESPONSE: THE SFHA CONDUCTS ITS PROCUREMENT PROGRAM IN FULL COMPLIANCE WITH LAWS, REGULATIONS, AND REQUIRED PRACTICES

The auditors acknowledge that they "found no fraud" in their review, and documentation has been provided to the auditors to correct extensive inaccuracies contained in the examples included in the audit finding.

The audit report reflects a serious misunderstanding regarding the role of contract monitors. A contract monitor generally assists the Materials Management Unit in developing an RFP and soliciting and evaluating bids. In some cases where the contracted services are highly specialized, the contract monitor will play a primary role in soliciting and evaluating bids. However, the execution of a contract and approval of payments remains under the control of the Materials Management Unit and the Finance Department. All purchase requisitions for contract services are approved by the SFHA's Finance Department, and all Purchase Orders are created by the Materials Management Unit.

The contract monitor has responsibility -- in ADDITION to, rather than in place of, the Finance Department and Materials Management Unit -- to monitor the performance of a contractor and authorize payment, subject to additional approval by the Finance Department. The specific examples cited in the draft audit finding were actually examples in which the contract monitor assisted in assuring proper control over contract expenditures. The audit finding included a number of significant errors and misrepresentations regarding the SFHA's contract administration practices.

1. Security services for the SFHA's eligibility office. In June 1991, after soliciting bids from three qualified service providers, the SFHA selected Cal State Patrol Services to provide temporary security services for a two week period, pending evaluation of bids received for an ongoing contract for these services. The SFHA paid the firm \$926.40, on the basis of a

purchase order, for the two week service period. Subsequently, the SFHA and the contractor executed a copy of the firm's standard contract. The SFHA's Materials Manager determined that a formal contract was not necessary due to the limited cost and length of service provided.

A contract for ongoing services was awarded to Ogra Security Services. This contract was finalized in July 1991. The selection process and contract award were completed by the Materials Management Unit in accordance with the SFHA's procurement policies. The contract monitor documented unacceptable performance by the contractor, leading to termination of the contract.

2. American Appliance Repair Co. Materials Management staff selected this contractor on the basis of an extensive telephone solicitation to determine price and availability of services. (Documentation of this bid solicitation process, and subsequent correspondence between the contractor and the Materials Manager has been provided to the auditors). The contract monitor documented unacceptable performance by the contractor, including repeated failure to keep appointments to repair tenant appliances. In contrast to the characterization contained in the audit finding, the Materials Manager and Finance Department staff identified an overpayment which resulted from duplicate billings, wrote to contractor, and deducted the duplicate payments from payment for the contractor's final bill.

3. Law firm: Walsworth et al: Bids for these legal services were competitively solicited. This law firm as selected because they (a) had experience in environmental work, (b) proposed an hourly rate less than either the HUD approved rate level and rates provided by other offices contacted, and (c) demonstrated a good affirmative action record. Total payments to this contractor were \$3,353.88 and the case was successfully closed. Due to the need to preserve attorney-client privilege, and the technical issues involved, Legal Department does its own competitive solicitation for legal services. However, no Purchase Orders can be issued or contracts executed without approval by both Finance and Materials Management. Approval by the Executive Director and the Commission is also required, as provided by the SFHA's procurement policies.

4. Standby asbestos consultant: The contractor who was initially selected to provide this service was unable to respond quickly to an emergency condition involving asbestos contamination in occupied units. As a result, the Materials Manager and contract monitor re-evaluated all proposals which had been received from firms recommended by San Francisco Department of Public Health and selected a contractor who could meet this criteria. Appropriate management approval was involved.

5. Appliance repairs: The auditors acknowledge that the SFHA sent out 34 RFP's for appliance repair services and only one firm responded. 24 CFR, Part 85.36 allows noncompetitive procurement when "after solicitation of a number of sources, competition is determined inadequate". There is no legal obligation to re-bid under these circumstances. A

detailed survey of potential appliance repair firms had been performed the previous year for cost comparison. The comment that at least two other contractors were interested in a contract is based only on responses to inquiries by Materials Management staff to find out why there were so few bids received. These contractors had made no effort to submit a bid in response to the RFP. Initiating a new solicitation would have been time-consuming, and could have delayed repair of tenant appliances. The second firm (T&L) was designated as back-up based on prior performance. Historically, it has been very difficult to find contractors willing to enter Authority developments to repair appliances. Sam's Appliance stopped providing service after a few weeks.

The auditors indicated that the SFHA did not properly document price quotes in a number of instances. The SFHA has provided documentation from Materials Management files for all of the examples cited in the finding. These include:

1. Industrial Plumbing Supply (PO 22259): The item (Speakman tub shower assemblies) is obsolete. It is very difficult to procure. The SFHA obtained two price quotes, from Industrial Plumbing Supply (IPS) and Universal Specialties (US). Both bids are noted on the attachment to the Purchase Order. IPS offered lowest price.
2. Littler, Mendleson, Fastiff, and Tichy (PO 22186): In December 1990 HUD approved the hourly rate paid to this law firm for legal services relating to labor management. Legal services are obtained on the basis of competitive solicitation, and rates paid by the Authority are substantially below market.
3. Vanier Graphics (Purchase order 21971): Three quotes are attached to the PO. The other quotes were from Argonaut Business Forms and Prime Resources. Vanier Graphics was the lowest bidder.

Sole Source Contracts: The auditors requested a list of all sole source suppliers. They were informed that the SFHA does not maintain a single list of all sole source suppliers. There is no requirement in federal regulations or in the HUD procurement Handbook that such a list be maintained. The auditors did not identify any cases in which sole source procurement was conducted without justification.

Contract Purchase Log: The auditors indicate that the contract logs maintained by the Finance Department did not include any financial transactions. It appears that the auditors reviewed only the Contract Register, which is a summary document listing all contracts executed during a fiscal year. The Contract Register provides a simple and concise listing of contracts, with information which allows quick reference to the complete contract log. The contract log is a complete folder for each contract, and includes information that exceeds the requirements of HUD Handbooks HM 7510.1 and HM G 7511.1 The contract logs include copies of

resolution, contract, change orders, purchase requisitions, accounting information, total contract amount and payment history, etc.

COMPENSATION TO SFHA's BOARD OF COMMISSIONERS

SFHA RESPONSE: IG IGNORED HUD REGULATIONS AND FAILED TO CONSIDER CALIFORNIA STATE LAW ON PER DIEM PAYMENT AND EXPENSES FOR COMMISSIONERS

The SFHA disagrees with this finding and maintains that the payments to members of the Board of Commissioners are allowable under California State Law and HUD requirements, and conform to commission practices of many other Boards in the City and County of San Francisco. Further, such payments do not require HUD approval. The IG characterizes the \$50 per member per meeting payment to Commission Members as "compensation for services" and, thus, an ineligible use of operating funds. The IG would be correct if these payments were in fact compensation for services. However, the IG failed to recognize the distinction in both California State Law and the HUD regulations between compensation for services and per diem payments and expenses.

The California Health & Safety Code Section 34274 entitled Per Diem Payments: Expenses; states, "...a commissioner shall not be regularly employed by the Authority to which he is appointed during his tenure of office, but may receive per diem payment for attendance at not more than four meetings per month of the Authority, which shall not exceed \$50 per day, and shall receive necessary traveling and subsistence expenses incurred in the discharge of his duties." HUD has a similar rule in that compensation for Board Member services are unallowable. Travel and related expenses are permitted. There is no requirement in the HUD rule which states per diem payments and expenses paid to Commissioners require HUD approval.

ADMINISTRATIVE STAFF

SFHA RESPONSE: HUD SETS NO STANDARDS FOR RATIOS OF ADMINISTRATIVE EMPLOYEES TO UNITS. THE SFHA's RATIO IS APPROPRIATE TO LOCAL NEEDS AND CONDITION AND IS APPROVED BY HUD ANNUALLY

The finding states that the SFHA's fiscal year 1992 operating budget provides for 70 full-time administrative employees in excess of the number of employees needed to manage its 6,689-unit conventional low-income housing program.

The Authority seriously questions how it can be in violation of indicators that are only guidelines, not standards or regulations. HUD Handbook 7460.7 REV-1. states clearly the difference between guidelines and standards: "...ratios of average number of administrative and maintenance employees to units are intended as guidance for purpose of assessing PHA staffing. IT IS EMPHASIZED THAT THESE DATA ARE TO BE USED AS INDICATORS RATHER THAN STANDARDS." (emphasis added)

The IG's use of the approved budget positions instead of actual staffing further distorts the picture. The budget is a planning document. During the course of the fiscal year we may revise our budget to accommodate our staffing needs and this will change what was initially approved. Actual staffing levels have been on the average 15 percent below budget for the last five years. The table below demonstrates that the SFHA has consistently underspent its original approved budget for administrative salaries.

Vacant positions are incorporated into the budget to provide for the of additional staff needs throughout the year. The inclusion of the vacant positions does not require full justification at the time of budget preparation. However, when a department head wishes to fill a vacant position, a full position justification is prepared documenting the need for the additional staff regardless of funding source.

The HUD Handbook goes on to state that other factors such as size and type of inventory, i.e. family/elderly, number of developments, age and size of developments, time since construction or modernization, etc. should be considered in determining the optimum number of administrative staffing for specific housing authorities. If we examine our unit composition factors, our ratio is within the appropriate guidelines for the San Francisco Housing Authority. Ninety five percent (95 percent) of our units have been built prior to 1974 and 55 percent of our units were built before 1956. Our housing stock is aging. What is additionally hard on our inventory is that 97 percent of our family developments were built before 1974. Our family to senior ratio is 70 percent to 30 percent. This contributes to the fatigue of our developments. Family units house more people than senior units averaging 3.2 occupants per unit. In addition, the units themselves are larger.

Lastly, the SFHA was a troubled housing authority with serious deficiencies in administrative capabilities. To begin to address these issues as quickly and effectively as possible, while implementing new programs such as decentralization, resident initiatives, drug elimination, and substantial increases in modernization funding, required strengthening the administrative resources of the SFHA.

The Inspector General should not attempt to substitute its judgement for the judgement of program administrators. If it believes rules, regulation, or guidelines are inferior or inadequate, it should bring such matter to HUD's attention and seek changes there rather than blame those who implement them.

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